Are You One of the Many Investors Wasting Your Time?

If there's one thing investors do to waste a lot of their time, it is comparing the performance of their portfolios to the S&P 500 or the Dow Jones Industrial Average. These indexes have little in common with any well balanced and well diversified portfolio. They simply aren't good proxies for conservative, retired or soon to be retired investors to use for their investments. In December 2004 I called the practice a big waste of time. I maintain that view today. I wrote then:

> ***A Big Waste of Time***
>
> *One of the most inane exercises carried out by professional and amateur investors alike is comparing performance against, for example, the S&P 500 or Dow 30. These things are moving targets. Investors are not comparing apples to apples. For example, the original Dow began in 1896 with 12 components. What are you comparing yourself against? American Cotton Oil or American Sugar Refining or perhaps Chicago Gas? No, all of these companies have long since disappeared from the Dow 30. In fact, only one of today's Dow 30 companies started out in Charles Dow's index back in 1896. The sole survivor is General Electric. The others have either gone bankrupt or merged and merged again. The Dow today is even 10% different from the Dow in 1999, as Eastman Kodak, AT&T, and International Paper have been replaced by AIG, Verizon, and Pfizer.*
>
> *Both the Dow and the S&P 500 not only are moving targets, but are survivalist weighted. Losers and bankruptcies are dropped and replaced with up-and-comers. And neither index is encumbered with sales charges, expenses, or fees of any kind. And indices don't pay taxes, which takes a giant bite out of most investors' portfolios. No, you will do yourself no good*

> *comparing your own efforts or those of your manager’s against moving targets.*
>
> *Instead, measure yourself against a set of reasonable goals based on long-term growth of the economy and normalized interest rates, both nominal and real. With a clear understanding of probable long-term growth and income characteristics, you are equipped to establish your own personal targets.*

There are thousands of indexes available, including some with greater value as comparisons for investor portfolios. Those should be sought out and used in a way that takes into account all the factors I mentioned back in 2004. Don’t make the mistakes so many do by comparing your portfolio to an index that has nothing to do with your goals, risk tolerance, or desire for diversification.