CHAPWOOD INVESTMENTS

INVESTMENT FORENSICS

Baseline Metrics

Your portfolio deserves the truth.

After over three decades in the Financial services business it has always alarmed me on how people select their financial advisors. I always thought there should be certain metrics used to evaluate in an objective way a portfolio. Since there isn't one, I created what I believe should be the hallmark of our industry in respect to how to objectively evaluate portfolios and in a de facto way evaluate your current financial advisor. Here are the eight metrics that should be used.

#	Metric	Description
1	**Rate of Return**	This is the rate you need to make on your portfolio in order to not lose purchasing power after subtracting your expenses, taxes, and cost of living increase.
2	**Standard Deviation**	This is a statistic that measures how much risk you are taking versus your return. The lower the number, the better.
3	**Variance Drag Phantom Tax**	This ratio calculates the degree of your standard deviation in proportion to your rate of return. Ideally, it will be at 0.8 or less. Anything over 1.5 is not acceptable.
4	**Sharpe Ratio**	You want this to be 1 or higher on your entire portfolio. Anything at 0.5 or less is unacceptable.
5	**Probability of Any Loss in the Next 12 Months**	This is the probability that your portfolio will experience any loss during the next 12 months. It should be 15% or less.
6	**Amount of Money at Risk in the Next 12 Months**	Based on historical data, this identifies how much money is at risk.
7	**Upper and Lower Return**	You want this range of returns to be as narrow as possible.
8	**Correlation to S&P 500**	This shows the movement of one investment or index in relation to another. The scale is between +1 and -1.

4965 Preston Park Boulevard
Suite 100
Plano, Texas 75093

(972) 865-2225
Ed@ChapwoodInvestments.com
ChapwoodInvestments.com