

## Leahy & Clair Launches *My Personal Benchmark* for 2010

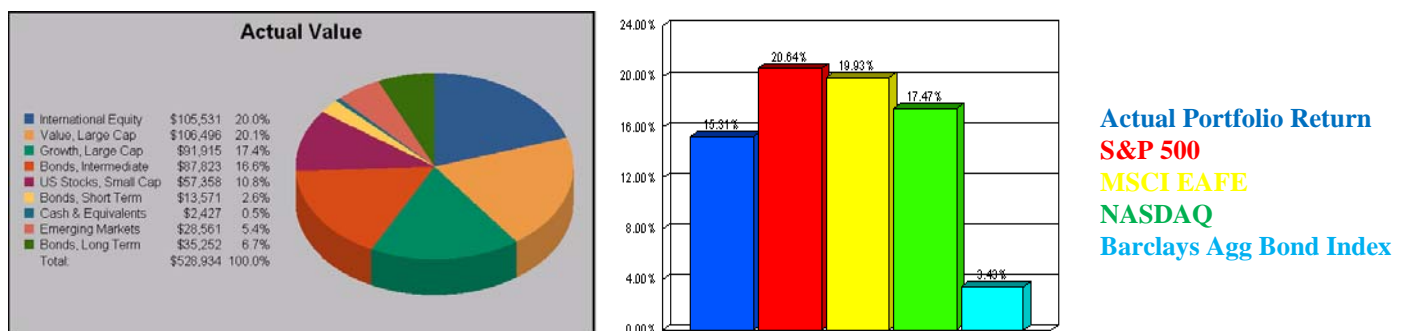
*A Better Way to Measure Your Portfolio's Performance*

Back in our October 2009 newsletter, we set the stage for something innovative and exciting regarding how to truly assess the performance of your investment portfolio. We addressed the question of measuring the performance of an asset allocated portfolio against industry benchmarks and whether it was a fair comparison to measure a portfolio made up of US and foreign stocks, small and large company stocks, bonds, etc., against a single benchmark like the S&P 500, which is common practice.

Depending on the broad U.S. market performance represented by the S&P 500, the portfolio in question could appear to be performing better or worse than the S&P 500, if it is influenced by the performance of assets not represented by the benchmark. In the end, it tells us nothing *that* insightful. It is an apples to oranges comparison.

However, if we use several benchmarks representing the different asset class segments of the portfolio and apply the requisite weighting to each benchmark, this will give us a *true* yardstick to compare our portfolio to. For example, if foreign stocks make up 20% of the portfolio, then the portfolio performance should reflect 20% of non-U.S. equity performance (in our example, we'll use the MSCI EAFE index) returns for that period. Apply this methodology to appropriate indices for each asset class of the portfolio model, and you'll create an aggregate benchmark for your portfolio. This will provide a more accurate measure of performance and may teach you something about how your investments you never noticed before.

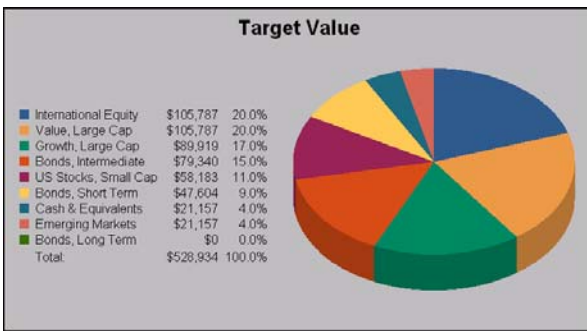
In our previous article we considered an asset allocated portfolio and its return for a given period against four benchmarks. In this example our period is 6/1/09 to 11/30/09.



By simply comparing its performance of 15.31% for the period against the S&P 500 (20.64%) we would conclude that the portfolio is underperforming. Yet only 37.5% of the portfolio is exposed to Large Cap equities if we look at the asset allocation pie chart. More accurately, we should expect 37.5% of the performance of the S&P 500, or 7.74%. Continuing that

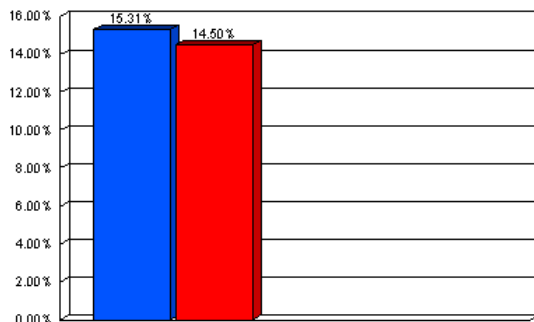
methodology for each benchmark, we calculated returns of 1.89% for Small Cap equities, 5.06% for Non-U.S. equities, and 0.89% for our Fixed Income investments. The total aggregate return would then be 15.58%. Our portfolio generated a 15.31% return for the period, so we can conclude that our portfolio's performance correlated quite closely to its benchmarks, and thus the various markets where the portfolio has exposure.

With *My Personal Benchmark*, we now have the opportunity to take it a step further and tie the blended benchmark to a client's specific target portfolio, thus measuring their actual portfolio against the target model we manage to through regular rebalancing. In our example, the actual portfolio is close to its target model shown below. However, we use the target percentages to build our blended benchmark accordingly.



Lehman Agg Bond	28.00 %
S&P 500	37.00 %
MSCI EAFE	24.00 %
NASDAQ	11.00 %

The result is a one-to-one comparison of the client's actual portfolio's performance and the market benchmarks, blended to match the allocation of the target portfolio.



**Actual Portfolio Return**

**My Personal Benchmark**

The slight variation in the benchmark returns (15.31% vs. 14.50%) is due to the blended benchmark being constructed based on asset percentages of the target model rather than the actual holdings.

This tells us at a glance that we are performing ahead of our target model. It also prompts us as managers to ask why? We can look to the higher performance of international stock for the period and the fact that the actual portfolio holds a larger percentage than the target calls for. It

might also be due the performance of the actual investments held. This then may be a reason to rebalance back to the model as our risk has increased over time and analyze specific investments.

Beginning in January 2010 My Personal Benchmark will be included on all client performance reports. If you'd like to learn more, just let us know.