

How to Monitor Investment Performance



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Introduction

It's your money! If the money is going to fund your retirement, your performance will impact when you retire, how you live during retirement, and your financial security late in life.

It's your money is a rational reason for monitoring the performance of your advisor. But, it also defies human nature and lower quality financial advisors know it and they take advantage of it to make money for them and their firms.

- Most people like their financial advisors
- It's human nature to trust people you like
- You trust the advisor who is helping you accumulate and preserve assets for retirement

"I like and trust my financial advisor. Why should I monitor his/her results?"

Trusting Advisors

One form of trust is letting advisors monitor their own performance. This means your only source for data and explanations for your performance is the advisor who invests your assets. This is a major source of financial risk if any of the following conditions exist:



- Your advisor has a potential conflict of interest
- You have a personal relationship with your advisor
- Your advisor withholds information from you
- Your advisor is producing bad results
- You do not receive performance reports

The bottom-line is what if you trusted the wrong person? What if your advisor has superior sales and relationship skills, but limited financial knowledge?

What if you're getting bad results and you don't know it?

Business Relationship

You should have a business relationship with your advisor and not a personal relationship. This does not mean you don't like your advisor. A business relationship means your advisor is accountable for producing competitive results for reasonable amounts of risk and expense.

Personal Relationship

There is a good chance you have a personal relationship with your likeable, friendly financial advisor. To protect your own retirement interests, you should recognize the relationship benefits your advisor a lot more than it benefits you. The relationship helped the advisor gain control of your assets and he knows you are more reluctant to terminate a relationship with a friend.

As the saying goes, "If you want a friend, get a dog". The investment of your retirement assets should be based on a business relationship. This way you make objective decisions that are not impacted by personal relationships.

Full Disclosure

Your advisor should also be accountable for practicing full disclosure. That is, no pertinent information is withheld from you. The best advisors volunteer performance information. Lower quality advisors make you ask the questions to obtain information. They hope you don't ask the right questions or you don't know good answers from bad ones.



Conflict Of Interest

Your financial advisor makes money from your assets. For this reason alone, he/she should not monitor his/her own performance. He/she has an inherent conflict of interest.

You may think, "I have known my advisor for several years. He/she doesn't have a potential conflict of interest".

Paladin says: “All financial advisors, who derive income from your assets, have potential conflicts of interests. You just don’t know that the conflicts exist.”

Top Priority

Your advisor’s top priority is retaining his/her relationship with you.

- From a positive point of view, he/she retains the relationship by producing competitive performance for reasonable risk and expense.
- From a negative point of view, he/she retains the relationship using deceptive sales tactics and relationship management skills.



Termination

Very few advisors are going to voluntarily provide information that will cause you to terminate your relationship with them. This is core conflict of interest. Most advisors make you ask the right questions and they hope you will accept verbal responses so there is no written record of their responses.

Withheld Information

Advisors do not have any mandatory disclosure requirements. It is perfectly legal for them to withhold information from you. This makes you responsible for obtaining the data you need to make informed decisions.

An advisor may withhold information about his/her credentials and ethics. Or, he/she withholds information about the performance and risk exposure of your investments. Both are a major source of hidden risk.

Performance Reports

A good financial advisor will provide quarterly reports that monitor the performance of your assets. The reports include data for current holdings, market values, transactions, and performance. This is the data you need to assess the results that are produced by your advisor.

There are also financial advisors who do not provide performance reports. Their licensing limits them to selling investment products for commission. They are not permitted to provide ongoing services such as performance measurement reports. And, because their sole method of compensation is usually one-time commissions, they have no economic incentive to provide continuing services like performance measurement.

Relative Performance

Your absolute performance (10%) tells you how your assets performed. But, it does not tell you how well your advisor performed. You need relative performance to make this determination. For example, your stock portfolio was up 10%, but the stock market was up 20%. On a relative basis you lagged the market by 50%.

Use relative performance to measure the quality of your advisor's results.

Paladin Performance Benchmarks

There is an easy way to determine your relative performance. Your advisor is not involved in this calculation, it is *FREE* information, and it only takes a minute.

- Paladin produces five Performance Benchmarks for different types of investors based on return objectives, risk tolerance's, and circumstances
- You select the Benchmark that best describes you and your situation
- Compare your advisor's performance to the results that are produced by your Benchmark
- You can compare monthly, quarterly, year-to-date, and annual results

Why Use Paladin Benchmarks?

We are an information services website, not a financial services website. We are an independent third party. All of our services are free. We have nothing to sell you.

[Our Benchmarks](#) are realistic. They are built using multiple asset classes, passive allocation, and back testing to 2008.

Why not use them? It is fast and easy. You may identify a major performance problem. You take action sooner so you have more money for your retirement years.

2013	Maximum Growth
1 st Quarter	6.73
2 nd Quarter	-1.22
3 rd Quarter	7.12
4 th Quarter	6.64

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About the Author



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