Marc A. Hebert's 'Money $ense': Market swings are not the best benchmark for your portfolio

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IF YOU watch the nightly news, you probably hear about the performance of the market that day. Lately there have been some rather dramatic ups and downs.

What exactly is going up and down? It most likely is the Dow Jones Industrial Average or the S&P 500 Index that is being reported on. These are the market indexes that are often analyzed in great detail by the news media.

It is important to know that the Dow and the S&P 500 are tracking large U.S. domestic company stocks. The Dow includes only 30 stocks and is a price-weighted index, which means that companies with a higher stock price are weighted more heavily.

The S&P 500, which weights companies by market capitalization, or total dollar value of outstanding stock, is a much broader index that tracks 500 of the largest companies in the U.S. This is a much more extensive representation of the U.S. stock market.

These indexes may be useful for gauging the market trend for U.S. large capitalization stocks but may not be a good benchmark for reviewing the performance of your overall portfolio.

The reason for this is that your portfolio could be broadly diversified. It might have several different asset classes, each with its own investment choices.

For example, you may have U.S. small company stocks, international equities, or corporate bonds included in the mix. These may perform differently than your large U.S. company equities.

If you expect that your portfolio will perform the same as the market index mentioned on the news, you might be disappointed.

As we mentioned above, your portfolio probably has several different asset classes. These assets could act differently from each other under various market conditions.

It is important for an investor to decide the appropriate mix of assets to meet his or her needs. This mix might include stocks, bonds, and other asset classes.

The appropriate allocation of these assets depends on many factors such as the investor's goals, age and, of course, risk tolerance. Your portfolio mix should meet your needs but still allow you to sleep easy at night.

With the different categories of assets included in your portfolio, using a single index as your benchmark may not give an accurate comparison of your performance.

You may want to consider using several indexes as benchmarks for your portfolio to give you a sense of the performance of your investments. There are many indexes to choose from. It will take some research to identify which ones fit your portfolio holdings. Often, a mutual fund will provide you with the benchmark it is trying to match its performance to.

It's also important to keep your outlook sound. Short-term market fluctuations often have little to do with long-term results. Your investment may not meet the benchmark target today, but there could be a reasonable explanation for its failure to do so. You will need to do some research to see if the investment story is still a good one.

One missed benchmark target is not necessarily a sell signal — it might just mean you need to keep a closer eye on your investment's performance.

This brings us to our next point. Making decisions on performance figures is always a tricky proposition. Markets and asset classes aren't always performing in the same manner from one time frame to the next. It goes back to the old caution — past performance is not a guarantee of future returns.

It pays to do your research and periodically review your portfolio's results. Having a disciplined and well-reasoned investment strategy can help you through the downturns when you just don't seem to be getting the performance you anticipated. Making adjustments along the way that are appropriate to your financial needs and goals will help ensure your investment success.

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