Assante® WEALTH MANAGEMENT

DIFFERENCES BETWEEN TIME-WEIGHTED AND MONEY-WEIGHTED RETURN

CRM2 AND YOU

Understanding these two formulas can be difficult for most investors. Explaining them may be an even harder task. Let's take a look at the key differences and see an example of both returns applied:

Time-Weighted Return (TWR)	Money-Weighted Return (MWR)
• Time-weighted return focuses on the change in value of a $1.00 investment over a given period of time. • It is considered the client's investment rate of return. • The return is impacted by factors such as the overall market return (market trends) and investment selection within the portfolio. • It does not take into account decisions made by the investor relating to the timing of cash flows (buying high and selling low or vice versa). • This return can be used to evaluate the performance of the investment itself.	• Money-weighted return tracks the value of all cash flows into and out of the account. • It is considered to be the personal rate of return for the client. • The return is impacted by the overall market return, investment selection within the portfolio and investor decisions relating to the timing of the cash flows. • Purchasing when the price is low and redeeming when the price is high will result in a higher money-weighted return compared to time-weighted, and vice versa. • This return can be used to evaluate whether or not clients are on track to meet their long term investment goals (such as retirement savings).

Basic Investor Example

Advisor John Wise has two clients, Sammy Doe and Suzy Smith. Sammy is very patient; he invests when prices are low and sells when prices are high. Suzy is a very nervous investor; she gets excited and buys when prices are high and sells when prices are low. Let's see what happens when they both invest in the same security.

DATE	Sammy		Suzy		Price Change
	Transaction	Market Value	Transaction	Market Value	
Jan 1, 2013	Invests $5,000	$5,000	Invests $5,000	$5,000	+ 20%
Dec 31, 2013		$6,000		$6,000	
Jan 1, 2014	Withdraws $2,000	$4,000	Invests $2,000	$8,000	- 20%
Dec 31, 2014		$3,200		$6,400	
Jan 1, 2015	Invests $2,000	$5,200	Withdraws $2,000	$4,400	+ 20%
Dec 31, 2015		$6,240		$5,280	
TWR	**4.83%**		**4.83%**		
MWR	**8.76%**		**1.62%**		

What Happened?

Both clients invested and withdrew the same amount of money (invested $7,000 and withdrew $2,000) but Sammy had a higher MWR than Suzy. Why? Sammy bought when the price was low and sold when the price was high (buy low, sell high). By doing this he positively affected his personal ROR. Suzy did the opposite, she bought high and sold low, which negatively affected her personal ROR. Notice that the TWR was the same for both clients; this is because the investment performance (shown by the price change) was identical for both and is not affected by when the clients buy or sell.

Contact

For questions and feedback please contact Advisor Services by phone at 1-800-268-3200 or by email at service@assante.com.

1605-1038_E (05/16)