“It’s Greek to Me!” – Understanding Your Investment Statements

By Eve Kaplan, Certified Financial Planner™

Note: I recently gave a seminar at the Bernards Township Library in Basking Ridge, NJ. Here are a few points that we touched on.

When you look at your monthly investment statement, do you think “this looks like Greek to me”? Do you ignore all but the first page, after checking to see how much money you “made” or “lost” last month? If so, you’re in good company. However, there’s a lot of meat in your investment statements so here’s a deep dive into some of the important elements:

1. **Don’t just compare changes in account value** this month (vs. last month), be aware of sub-components that add or subtract value each month: e.g. “dividends and interest,” “market appreciation/depreciation” and “other income and expenses.” (this may include fees paid for your advisor).

Interpretation: Dividends and interest are meaningful components of your return and can amount to 1-4% of your pre-tax return. Surprisingly, how much your investments rose or fell in any one month (or even over the period of a year) might be less meaningful in the short term. How much of your gain/loss in your account is due to market forces beyond your advisor’s control, and how much is due to specific investments held (that may have done better or worse than “the market.”)? What are appropriate benchmarks to use to assess your investment performance? These are questions your advisor should be able to explain to you.

2. **Know your investment basics because advisors don't always explain this very well to clients.** Listed investments (e.g. mutual funds, exchange traded funds or individual shares) are relatively easy to understand. For example, access the free portion of morningstar.com, look up the "ticker symbol" (example: DTMMX is a tax-managed US marketwide value portfolio) and learn what the yield is (dividend divided by share price), what the underlying mutual fund expense is, how the fee compares to comparable funds, the largest investments in the fund, etc). The same applies to exchange traded funds (example: VUG Vanguard Growth ETF). Similarly, looking up a share (example: IBM) will tell you what the yield is (dividend divided by share price), trading volume, PE (price/earnings ratio – typically dividing the share price by the most recent earnings per share to derive a multiple that shows how "expensive" or "undervalued" a share may be) etc. The past is the past so it's even better to look at forward PE ratios or PEG ratios (PE divided by earnings growth). Morningstar and other investment websites have a wealth of information about companies and their context within various industries.

Interpretation: Individual shares can carry share specific company risk, so it often makes sense to diversify and broaden exposure to an industry or market by purchasing mutual funds or Exchange Traded Funds (ETFs). Lower fees typically translate into a better net performance for you, the investor – hence the importance of looking at fees and other expenses. If you work with a fee-only advisor, you won't see "A," "B," or "C" mutual funds in your portfolio because fee-only advisors don't sell products. A, B and C mutual fund fees can be high (up to 5.75% for initial purchase of an A share) to generate commissions for your broker/advisor. If you investigate fees on Morningstar or other sites, you can clearly see what you're paying in total fees. Ideal mutual funds and exchange trades funds cost less than 0.5% per year and have no A, B or C fees attached. Ask your advisor to explain his/her fees to you if you're unclear.

3. **If you have multiple accounts with one advisor, or multiple accounts with many advisors**, you may be comparing apples with oranges when analyzing performance. Time and again I hear about investors who like to see "who's doing a better job for them: Advisor X, Advisor Y or Advisor Z." Even if you have all of your investments with one advisor, in one location, different accounts may have differing performances because they serve different purposes. In other words, your IRA account should be invested differently from your taxable account and your Roth IRA. Performance is most meaningful when all your accounts are aggregated and tracked over time. Having many holdings or accounts all over the place is not "diversification" – it's courting the risk of inadvertent overlap of holdings and it makes it difficult for an investor to "see the forest for the trees." (pull all the elements together).

Interpretation: The best approach is to concentrate as many of your holdings in one location (e.g. one investment firm), update your advisor regularly on held-away assets (e.g. 401k plans, cash) so he/she sees the "big picture" of all of your investments. Avoid the senseless exercise of splitting up assets amongst advisors to compare performance.

These observations are just the "tip of the iceberg" when it comes to understanding your investment statements. Make it your business to ask your advisor what each page means. It's a red flag if your advisor is less than forthcoming about explaining investment statements, his/her fees or anything else having to do with your investments. After all, it's your money!