Unbiased Financial Information Provided by Financial Wisdom.

Monitoring Your Financial Progress and Measuring Results

Taking control of your financial future is a process. As with any process, it is important to monitor your progress and measure results. Doing so will help you to understand how well you are doing and to determine if the financial strategies you are using are working.

A balance sheet provides a business with a snapshot view of its financial status. An income statement measures progress. You should do the same with your personal finances.

Monitoring progress
Preparing a personal balance sheet annually should be part of your financial management. You simply add up all your assets and subtract your liabilities to determine you net worth.

When preparing your personal balance sheet, separate your investment assets into stock, bond and cash categories. Understanding your personal "asset allocation" will help you organize your finances and monitor them. Many financial institutions provide financial statement formats as part of loan applications. You can also find examples in almost any financial planning book.

It also makes sense to track changes from year to year to monitor your progress and determine if you are on track to reach your financial objectives. Here is a chart that provides a basic format you may want to consider using.

Category	**2018**	**2019**	**2020**	**2021**
Cash	$	$	$	$
Equities	$	$	$	$
Fixed income investments	$	$	$	$
Real estate	$	$	$	$
Personal assets	$	$	$	$
Other assets	$	$	$	$
Total assets	$	$	$	$
Less: Liabilities	$	$	$	$
Net worth	$	$	$	$

Measuring your results
The other step, and the one that is more difficult, is determining how well you are doing. Determining your "absolute results" or if your net worth has increased from year to year is easy. Determining your "relative results" or how well you are doing compared to the rest of the financial world is not easy. If your stock portfolio went up 15%, that is good if the overall market was only up 10%. However, if the market was up 23% during that same period, a return of 15% is not so good.

Measuring your results can be difficult in two ways. First, just doing the calculation can be complex, especially if you added or withdrew money from your portfolio during the year. It is also difficult to know what formula to use.

There are rate-of-return calculation tools in many computer software programs. If you are using a spreadsheet program, use the internal rate of return function to calculate the total return on your portfolio.

Second, you must have some basis of comparison to measure how well you did relative to a benchmark. If your portfolio is all stocks, you may want to compare your returns with those of an index like the S&P 500. If your portfolio is all bonds, you may want to use the return on long-term government bonds as a comparison.

You can also compare your returns with quoted mutual fund returns. But, remember to compare with a fund that has a similar make-up of its portfolio. If you are a conservative investor with a portfolio of blue chip issues, don't compare your returns with an aggressive small company mutual fund.

Here is a chart of recent and long term average returns for three classes of investments. You may find it useful for making comparisons. These returns take into account dividends, interest and changes in value. They also reflect an "internal rate of return" calculation that is similar to reinvesting your dividends and interest. The year of 2008 was a bad one for stocks with the S&P 500 index falling 37% while it has risen each year since then.

Period	**S&P 500**	**Long-term government bonds**	**Short-term treasury bills**
2018	-4.38%	-0.57%	
2017	21.8%	6.2%	0.8%
2016	12%	1.8%	0.2%
2015	1.3%	-1.7%	0.2%
2014	13.7%	23.9%	0.0%
2013	32.4%	-11.4%	0.0%
2012	16.0%	3.3%	0.1%
2011	2.1%	28.2%	0.0%
2010	15.1%	10.1%	0.1%
2009	26.5%	-14.9%	0.1%
2008	-37%	25.87%	1.60%
2007	5.49%	9.88%	4.66%
2006	15.80%	1.19%	4.80%
2005	4.91%	7.81%	2.98%
2004	10.87%	8.51%	1.20%
2003	28.70%	1.45%	1.02%
2002	-22.10%	17.84%	1.65%
2001	-11.88%	3.70%	3.83%
2000	-9.11%	21.48%	5.89%
1999	21.04%	-8.96%	4.68%

5 years – 2014 to 2018	8.5%	5.9%	0.6%
10 years – 2009 to 2018	13.1%	3.7%	0.3%
20 years – 1999 to 2018	5.6%	6.0%	1.8%

Next steps
If your results meet your expectations, keep doing what you are doing. If your results do not measure up, you may want to take actions to improve them. This could include changing your stock selection process, urging your stockbroker to help you make better decisions, giving the responsibility to a professional investment advisor or choosing a different mutual fund.