

“Average” Returns Can Be Misleading



	LOWER CALENDAR YEAR RETURN PORTFOLIO	HIGHER CALENDAR YEAR RETURN PORTFOLIO
	STARTING VALUE \$1,000,000	
Year 1	8%	24%
Year 2	7%	14%
Year 3	6%	18%
Year 4	-9%	-34%
Year 5	6%	18%
Year 6	7%	14%
Year 7	9%	18%
Year 8	8%	16%
Year 9	-9%	-34%
Year 10	8%	16%
Ending Value	\$1,462,715	\$1,551,963
Average (Mean) Return	4.1%	7.0%
Annualized Return	3.9%	4.5%
Standard Deviation	6.61	20.67

Difference Between Annualized Return and Average Return

- Calculations of simple averages only work when numbers are independent of each other. The annualized return is used because the amount of investment lost or gained each year, is interdependent with the amount from the other years under consideration because of compounding.
- For example, if a mutual fund manager loses half of her client’s money, she must make a 100% return to break even. Using the more accurate annualized return also gives a clearer picture when comparing various mutual funds or the return of stocks that have traded over different time periods.

Hypothetical example used for illustrative purposes only and is not representative of any specific investments or mix of investments.

Standard deviation is a statistical measurement that sheds light on historical volatility which helps determine the spread of asset prices from their average price.

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