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Comparing Apples to Apples: Understanding Common Market Benchmarks

The dictionary defines the word benchmark as "a point of reference from which measurements may be made." In investing, benchmarks--or market indexes--are used by investors, portfolio managers and market watchers to track how a particular asset class or sector performs and to compare relevant investments to that measurement.

Each market index tracks a representative sampling of stocks, bonds or other securities that may be similar to the holdings in a given investment portfolio. In order to use benchmarks accurately, you should always compare apples to apples. It helps to be familiar with a variety of benchmarks and the sectors and asset classes they track.

A Variety of Measures

Following are some of the more popular and widely used indexes:

- The Bloomberg Barclays U.S. Aggregate Bond Index tracks the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.
- The 10-Year U.S. Treasury bond is issued by the Treasury Department with a 10-year maturity. It is the most popular type of U.S. Treasury debt and is often used as a barometer for the overall U.S. economy.
- The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities.
- The Dow Jones Industrial Average® is a price-weighted measure of 30 U.S. blue-chip companies.
- The NASDAQ Composite Index measures all domestic and international common stocks listed on The NASDAQ Stock Market. Launched in 1971, the index today includes over 3,000 securities.
- Morgan Stanley Capital International's Europe, Australasia, Far East (EAFE) Index represents the performance of large- and midcap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Many benchmarks, including those listed above, are reported regularly on major financial websites and in the business section of local newspapers; national publications such as *The Wall Street Journal* and *Investor's Business Daily*; and, internationally, in the *Financial Times*.

Using Benchmarks to Target Expected Return

Benchmarks can be used to assess the types of investments that may be most suitable to an individual's goals and investment time frame. By looking at the past performance of a market index, you can gauge the relative return potential of a particular asset class, as well as its risk characteristics. Keep in mind, however, that past performance is not a guarantee of future results and these unmanaged indexes cannot be invested into directly.

Also, be careful to use the right benchmark. For example, you wouldn't want to invest in corporate bonds maturing in five years based on the benchmark performance of 10-year U.S. Treasury bonds. Your financial advisor can help you assess which benchmarks to use in evaluating the performance and risk of a given market.

Finally, when using market indexes, keep in mind that even though an investment vehicle performs well in relation to its market benchmark that does not necessarily mean it’s an appropriate vehicle for your money. Investments should be made based upon a number of criteria, including your objectives, time horizon and risk tolerance.

Your financial advisor can help you determine which benchmarks to use when evaluating investment vehicles.

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