Time-weighted vs. money-weighted returns

As an investor it is important for you to know how your investments and investment account are performing. That starts with understanding performance measurements and what they tell you.

There are two standard ways of measuring performance: **time-weighted returns** (**TWR**) and **money-weighted returns** (**MWR**). TWR provides investors with a good measure to compare the performance of a fund against other funds and against key benchmarks. MWR provides investors with a good measure of their personal account performance.

What's the difference?

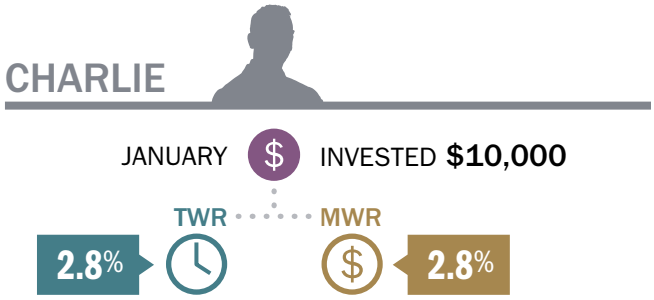
	Time-weighted returns (TWR)	Money-weighted returns (MWR)
DEFINITION	Measures the rate of return on a fund over a period of time, **excluding** your investment decision-making and trading activity related to that fund (e.g., withdrawals, deposits, transfers)	Measures the rate of return on an account over a period of time, **including** your investment decision-making and trading activity in the account (e.g., withdrawals, deposits, transfers)
PROS	▶ Can measure fund manager performance and compare it to fund benchmark ▶ Offers a rate that can be compared to other funds	▶ Shows your personal investment experience and account performance ▶ Helps clarify the impact your investment activity decisions are having on your account
CONS	▶ Impact of any changes you decided to make related to a fund during the period are not reflected in the rate	▶ Not an effective measure of a portfolio manager's performance ▶ Can't be used as a comparison to other performance of funds
BEST USE	▶ When comparing one fund or fund manager's performance to another	▶ When determining your account performance and the impact of your investment activity decisions

TWR and MWR in action

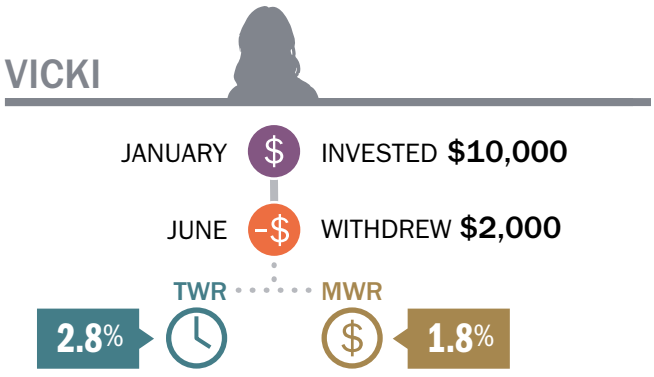
To understand the difference between the two types of returns, consider the following hypothetical examples of three investors: Charlie, Vicki and Jake. In each case, an initial investment is made on January 1, the markets declined by 3% between January 1 and June 30, and then rose by 6% between July 1 and December 31.

In the first scenario, Charlie made no changes to his account over the year. In the second scenario, Vicki was worried about the market decline and withdrew some of her investment on June 30. In the third scenario, Jake saw the decline as an opportunity and made an additional investment on June 30.

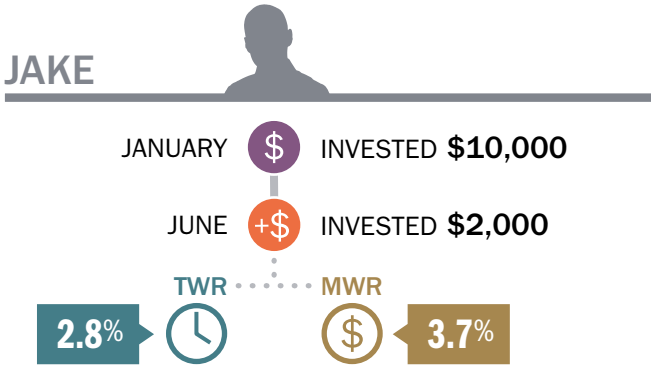
So how did those decisions impact their MWR relative to the TWR?



Charlie didn't make any changes to his portfolio. As a result, the TWR and MWR were identical.



Vicki's decision to withdraw some money in June hurt her portfolio performance, which resulted in a lower MWR vs TWR.



Jake's decision to make an additional investment in June helped his portfolio performance, which resulted in a higher MWR vs TWR.

TWR or MWR: merits for both

TWR and MWR rates both offer value to investors. TWR is best for comparing one fund or fund manager's performance to another, while MWR is best for measuring the performance of your personal account.

By considering both measures, you can have a clear picture of individual fund performance, as well as your account performance and the impact your investment decisions have on your portfolio.

To learn more, speak with your financial advisor.