

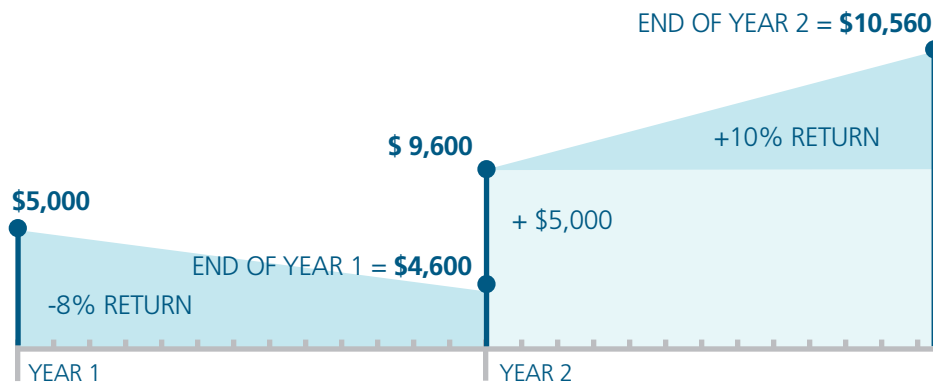
UNDERSTANDING RATE OF RETURN

The Canadian Investment Industry uses several ways to calculate Rate of Return. Most investors are familiar with Time Weighted Rate of Return, as these are the numbers published for mutual funds and other investments. But your own portfolio performance is calculated using Money Weighted Rate of Return. These returns can be very different, so let's understand the difference!

EXAMPLE

Let's say you invest \$5,000 in a mutual fund and, in the first year, it loses 8%. In the second year, you invest another \$5,000 and the fund earns a 10% return. At the end of the second year, you would have \$10,560.

Overall, you gained \$560. The mutual fund had a return of 1.2% over the period, but your portfolio had a return of 7.51%. How can this be?



TIME WEIGHTED RATE OF RETURN

Think of TWRR as a measure of what happens in an account that just buys a fund and then doesn't touch it — no additional contributions or withdrawals. It only calculates performance that the fund manager generates by buying and selling investments within the fund. Each time period's return gets the same weight, regardless of how much money was invested.



Useful for measuring how portfolio managers did

- Comparing performance of one portfolio manager to another, or to a benchmark
- Making forward looking assumptions in your financial plan

MONEY WEIGHTED RATE OF RETURN

Now think of your own account. MWRR measures your own performance combined with the fund manager's performance. MWRR captures your various cash flow across a time period and converts that into a personal rate of return. It's important to know that the size and timing of your deposits and withdrawals impact your return.

In this example, the overall return is greater because the account had more money invested in the second year when the return was positive.



Useful for measuring how you did

- Capturing the individualized return of your own portfolio
- Seeing the overall growth of the portfolio
- Understanding different methodologies including Modified Dietz and Internal Rate of Return