Average vs. Actual* Rates of Return

Many of today's financial goals are centered on the idea of achieving the highest rate of return that you can. The focus for many years has been the higher the rate of return you can get, the better off you are. Many times by using selective time frames, companies and financial people can get desired statistics that will sound very impressive.

It has come to my attention that 'rates of return' in the financial world can be misleading and misunderstood. Traditional thinking would have you believe that 'rates of return' will demonstrate how successful you could be in the future. Financial companies, in a quest to market their products, may imply that they can get you a higher rate of return than what you have been receiving. Before you fall for this type of marketing you should be asking yourself this question. Who is the one at risk in trying to achieve this higher rate of return, you or the person making the recommendation?

Since you're the only one at risk, you should take some time to discover how 'rates of return' can be misunderstood and misleading. These last 13 years have shown us that ***"it's not what you earn that matters; it's what you keep that counts."***

If someone is relying on the average 'rate of return' factor to measure their financial success, they could be in store for some surprising results. There can be a huge difference between average and actual* rates of return, especially as it relates to the growth of your money. Average is a calculation based on a rate of return over a period of time divided by the number of periods.

Example: if you have a $1,000 and you lose 50% the first year and gain 50% the second year, you have an average rate of return of 0%. Based on this average you would think that you still had your $1,000 to spend. But you can't spend ROR you can only spend actual money. In the above example you have actually lost 25% or $250. $1,000 losing 50% = $500. $500 gaining 50% = $750. The answer is the same if you reverse the order of gains and losses. Why this difference? The main reason is the affect of negative calculations (losses) during any period, with the period normally being annually. Sometimes not losing is better than winning big. Never underestimate the power of zero.

Don't let investment fund managers fool you with their 'average' rates of return over whatever period they claim it happened. You should be more interested in what the 'actual'* returns where during that same period. Don't get confused by the game that companies are playing. It's perfectly legal, but always remember it's their game.

Here is a more realistic example. The 10-year period from 2000 to 2009, what the Wall Street Journal calls '*The Lost Decade'*, had a negative 1% average rate of return using the S & P 500 point-to-point index (actual was closer to -2.7%). Without losses in, 2000, 2001, 2002 & 2008, the S & P 500 point-to-point index achieved a return of +5.45%, and that was with a 13% cap in all of those years. Obviously the eliminating of negative returns has a big impact on your moneys growth.

You should be looking for vehicles that provide a minimum of a zero (0) floor so they don't lose money in any year. Over the last 25 years the S & P 500 point-to-point index, with a cap of 13% and without losses, has averaged 7.89% *(a chart with all of the indexes and their results can be provided),* and this is what you would have actually received as a return had your money been in one of these type of vehicles.

In fact, based on hard data, if you had your money in one of these vehicles for the last 20 years you would have had a 95.34% chance of receiving at least a 7% annual rate of return during that period *(documentation can be provided).* This was using the S & P 500 point-to-point index (with a 13% cap) and locking in positive returns each year and never losing in any year.

Products can be purchased and sold, but the products you buy are not the source of your knowledge, they should be the result of your knowledge.

Remember, you can't spend average 'rates of return' you can only spend actual money. Let us help you find safe vehicles that can provide the best 'actual'* returns.

** Actual refers to being in the market everyday during the period.*

Dan M. Maga & Dan M. Maga II
American College Funding
Maga Financial Associates
444 Skokie Blvd. – Suite 302
Wilmette, IL 60091
847-920-9680
www.americancollegefunding.net
www.magafinancial.com