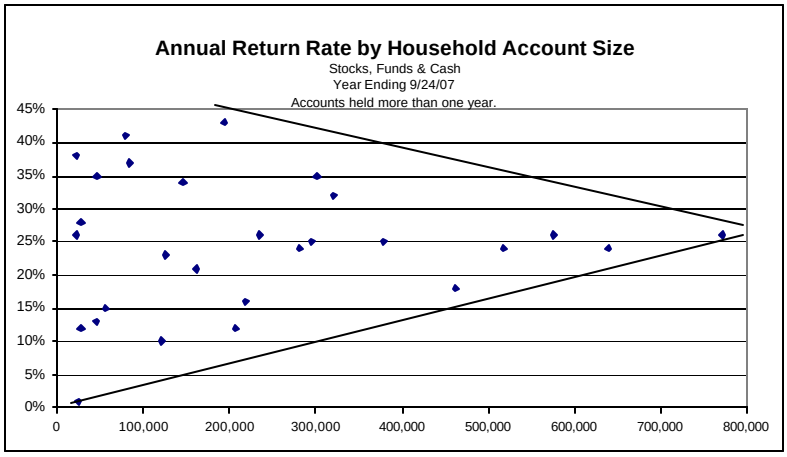
Update: Client Performance Variation

Wenzel Analytics Inc

When a client asked about return expectations for different account sizes, I updated my analysis of two years ago and found some interesting surprises. No longer do larger accounts have better performance, although the performance is more predictable as account size increases.

The scatter-plot chart below shows household account size on the horizontal axis for all accounts open more than one year. The vertical axis shows the return for the last year. As shown by the wedge, the larger the account the more the performance gravitates to the mean which was 24% for all accounts. The average performance for the benchmark Russell 3000 for the same time period was 15%.



I have been explaining the now false assumption of better performance for larger accounts by thinking that with larger accounts I can be more aggressive in buying higher performing stocks, and have the risk offset by the greater diversification.

When I compare the numbers to two years ago, I see significant changes in my practice style. Based on the previous study, I decided that it was not practical to buy stocks in smaller accounts, and have gone more to ETFs for such accounts. Many of these ETFs have been in emerging markets, which have had very strong performance. Over the last year, all ETFs and funds in my practice have had a 30% return, while stocks have had a 25% return. (Both numbers are higher than the 24% given above, which is an average of accounts, not of dollars.) The strong international ETF performance has helped the smaller accounts. At the same time, two newsletter-based stock portfolios oriented towards mining and resource scarcity, Outstanding Investments and Uranium, have limited overall returns.

The other significant change is that the average number of portfolios per household has increased by 2.5 from 5.9 to 8.4 (counting cash as a portfolio). Some of this is deliberate in an effort to gain more diversification; some of it comes from a longer history and a willingness to leave a few strong stocks in a portfolio as we move on to other portfolios. As my practice has matured, I have better systems for managing the increased complexity and have spent less time in seeking to grow the practice.

I did correlations between account size, annual return, balance between funds and stocks, the number of portfolios and the number of positions. Apart from the correlation between the number of portfolios and the number of positions, none of these variables accounted for 16% of the variance in any of the other individual variables.

I would remind readers that a year is a very brief period of time. Fluctuations in different portfolios during a single week can produce significantly different numbers and comparisons. If your account was below 20% for the last year, hang tight for next year.

An alternative to mutual funds.

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