

**Portfolio Stochastic Design Scans:
A Confusion of Web Comparison Metrics**

Edward L. Stanton, Ph.D.
CTO Emeritus
MSC Software Corporation

**“ In the end, how your investments behave is much less
important than how you behave. ”**

**Benjamin Graham
The Intelligent Investor**

On Human Error

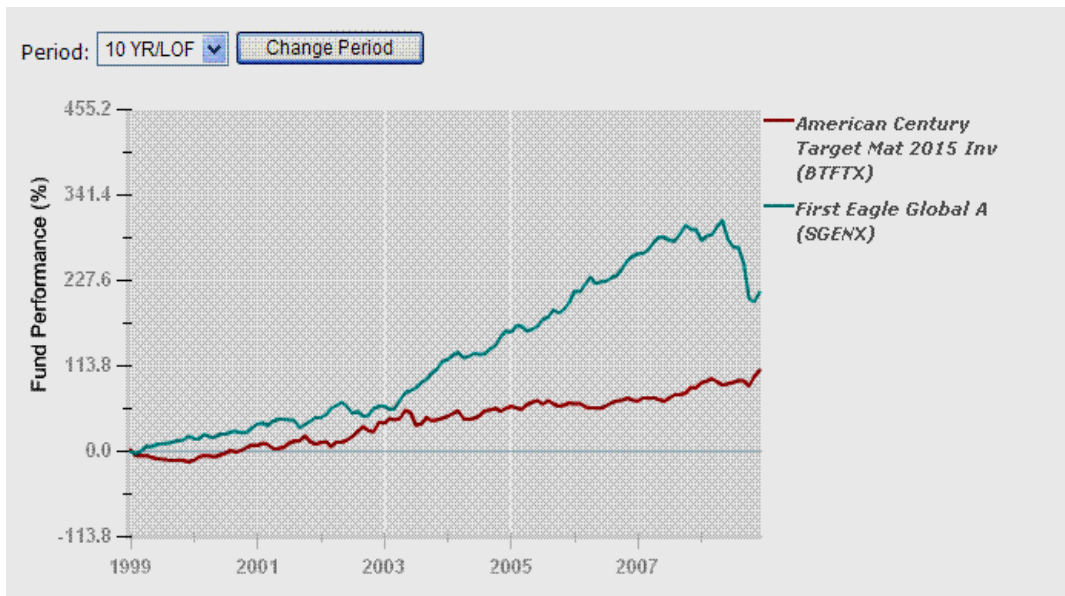
Engineers once launched a satellite to nowhere when their design team somehow mixed metric and English units in a trajectory analysis. Once at a conference I confused Maltese Lira for Italian Lira. That was more embarrassing than expensive. Comparing apples and oranges is a childhood error often repeated throughout life by many of us and that is what this note is about.

The Problem of Mixed Up Metrics

Investment errors caused by confusing comparisons are more common than you might think. At financial web sites maintained by regulated financial companies investment comparison graphics are based on **total** returns. This is critical for long-term investments. At financial web sites maintained by search engines most use **price** comparisons in their graphics, which may be fine for short-term transactions but it can be misleading for long-term investments. In the comparison below the



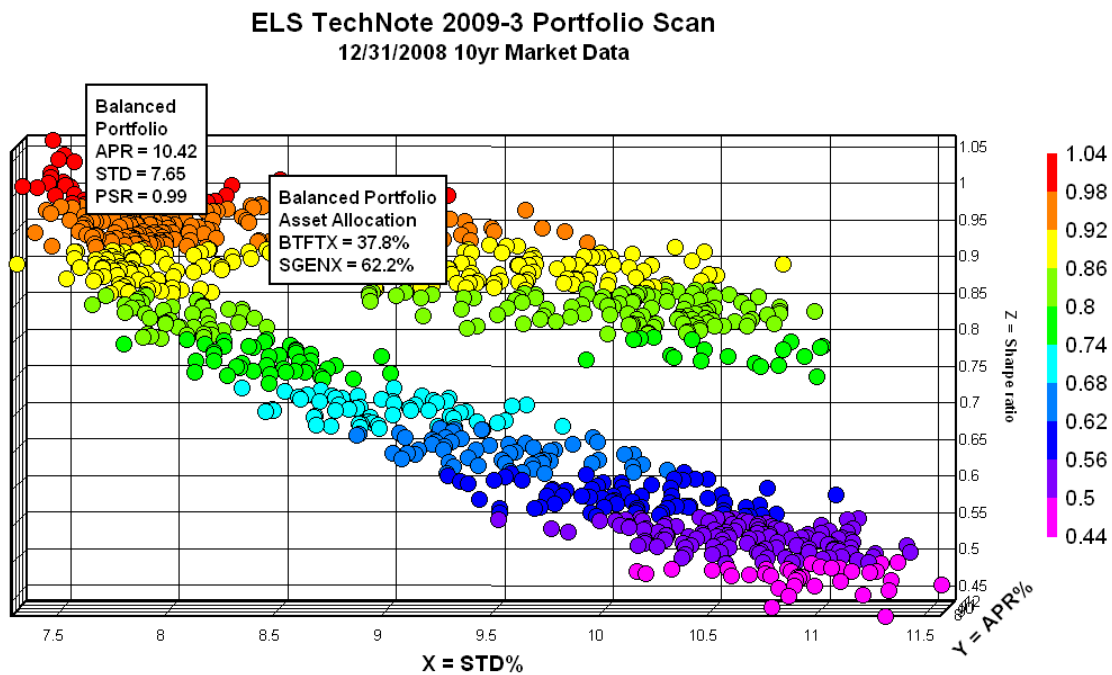
mutual fund in blue appears very clearly to be the better investment from 1992 to 2008. If you were not familiar with the two funds, BTFTX and SGENX that is what most would think from this comparison. You would be wrong. The 10yr total return of BTFTX from 1999 to 2008 was 7.13% while for the same period SGENX returned 12.05%. If you are familiar with these two mutual funds you know SGENX is one of the best global mutual funds year in and year out and BTFTX is a 2015 target maturity closed end fund. It is very stable.



In the comparison above the 10yr total return of the two funds is very different. The mutual fund in red is BTFTX and SGENX is green. Sorry about the color changes but these images come as is from different web sites with different software providing the graphic comparisons. The dramatic return differences are of course due to the large distributions SGENX makes every year which to a retiree are of some importance. BTFTX is my pick for a “stable value” fund with above average yield even in a Black Swan year like 2008. I own them both but they have very different roles in my portfolio by design.

Portfolio Design Comparisons

Now that we have the total return comparisons sorted out what kind of portfolio design impact will these two funds produce. To my way of thinking these are a stable value fund and a stable return fund for use in a long-term portfolio design. A bottom up approach to design that I prefer, start with a solid foundation.



In addition to these two funds add a bond fund that yields like an annuity, LSBDX, and an asset allocation fund that includes gold and real estate, PRPFX and you begin to get my take on portfolio design.

I think I have made the point about confusing web fund comparisons by many search engines for the long-term investor. In retirement be sure to look for total return comparisons and most often I use the Fidelity fund compare software.