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The Wilson Group at Morgan Stanley Smith Barney
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“How can I assure my portfolio is performing as it should be, based on my risk?”

By Eric S. Wilson

You need to know what benchmark your portfolio is currently being measured against and if that benchmark is an appropriate comparison to the composition of your portfolio.

Many investors set their performance expectations to that of the S&P 500 index. I cannot tell you how many times in 18 years I have had my own clients do this. With this view in mind, how would you account for bonds, gold, small/mid-cap stocks, international stocks or emerging market stocks, etc., in setting your own performance expectations for your portfolio? And how would you deal with cash in the portfolio? What about somewhat illiquid investments such as hedge funds and private equity? And to simply say “bonds” rather than specify Treasury bonds, municipal bonds or corporate bonds would also be getting further away from the answer you seek.

For example: What if your advisor were using the S&P 500 price return and the three-month Treasury bill return as your portfolio’s benchmark?

“What’s wrong with that?” you might ask. Well, first, your portfolio’s performance calculation had the benefit of the dividends paid from your stocks, but because your advisor was using the price return and not the total return for the S&P 500, your benchmark did not. Second, considering that most investors have a diversified portfolio of bonds, it is arguable that the three-month T-bill return would not be the appropriate benchmark. The result would be that your benchmark would give you a false sense of reality by overstating your own portfolio’s returns to that of the actual benchmark.

Another gauge of performance measurement is to take a more granular view and compare the performance of each of your investments (ETF, mutual fund, and/or private account) with that of (1) its index and (2) its peer group. (The peer group comparison is important because you really need to know whether you are investing in/with the dud or the dynamo.)

The final part of the question references the risk you are taking. When my clients use the term “risk,” most of the time they are referring to volatility relative to the S&P 500. Again, we have to go back to the composition of the portfolio and ask a series of questions. For example, if the S&P 500 were to drop 10 percent over a period of time, how much of that loss is acceptable to you for the portion of your portfolio that is exposed to the S&P 500? If you are using the S&P 500 as a risk benchmark and you have a substantial allocation to small-cap or emerging market stocks, be prepared for potentially more downside capture than you are currently expecting.

Peter Drucker is credited with saying that “long-range planning does not deal with future decisions, but with the future of present decisions.” You can make better present decisions by taking the time to understand the composition of your portfolio, develop a custom benchmark to help measure it against and monitor your performance relative to that custom benchmark. ☺

Eric S. Wilson is a wealth advisor and family wealth director with Morgan Stanley Smith Barney in Macon, GA. Although Eric S. Wilson has helped underwrite the production cost of the magazine to feature this article, the article is not a solicitation, nor is it intended to provide individually tailored investment advice. The strategies and/or investments referenced may not be suitable for all investors. The views expressed herein are those of the author and may not necessarily reflect the views of Morgan Stanley Smith Barney LLC, member SIPC. This article is directed to residents in the states where Eric S. Wilson is registered. <http://fa.smithbarney.com/ericwilson/>. The S&P 500 index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

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— Peter Drucker



WHAT MAKES A GOOD CLIENT...

A family that knows where it wants to go, is willing to seek help in getting there, and is willing to listen to the hard things that have to be said in a meeting. Remember, when two people always agree, one is not needed.

How to reach Eric S. Wilson

Interested families may reach me with questions or with interest at 877.442.5445 or eric.s.wilson@mssb.com.

WHAT I'M READING NOW...

Among others, *The Girl With the Dragon Tattoo*, by Stieg Larsson; *The New Family Office: Strategies for Consulting the Affluent*, by Lisa Gray; *The Parsifal Mosaic*, by Robert Ludlum, and Matt Chandler's latest sermons

MY HOBBIES ARE...

Teaching my sons about life through sports, playing tennis, reading and gardening

About Eric S. Wilson

Eric S. Wilson is a Senior Vice President and Family Wealth Director at Morgan Stanley Smith Barney, and for the past 18 years he has served the varied needs of families whose wealth has the potential to change the essential nature of their descendants' lives. Mr. Wilson began his career at Merrill Lynch in 1994, where he served until joining Morgan Stanley Smith Barney in 2010. For his work with families throughout the Southeastern United States, he has been nominated to *Barron's* Top 1000 Wealth Advisors and was named one of *Atlanta* magazine's Best Personal Wealth Managers in the Atlanta area in 2009. Mr. Wilson is a Certified Investment Management Consultant and an Accredited Investment Fiduciary Analyst through Fiduciary360. He is one of seven such dually certified individuals in the state of Georgia. Mr. Wilson graduated with a BBA degree in finance, economics and accounting from Mercer University. He serves on the advisory boards of the Community Foundation of Central Georgia and the Children's Hospital of Central Georgia and is a member of the Macon Estate Planning Council. He and his wife, Cindy, are proud parents of four sons, ages 11 and 4.

Assets Under Management
\$1.6 trillion (Morgan Stanley Smith Barney)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$5 million (planning services); \$2 million in investable assets (investment services)

Largest Client Net Worth
\$25 million+

Financial Services Experience
18 years

Compensation Method
Asset-based fees and commissions (investment and insurance products)

Primary Custodian for Investor Assets
Morgan Stanley Smith Barney

Professional Services Provided
Planning, investment advisory and money management services, advanced wealth transfer planning and liability management

Association Memberships
IMCA, Fiduciary 360 (www.fi360.com)

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