Portfolio Strategies WORKSHOP

Keeping Track of Your Portfolio: What to Monitor and When

By Maria Crawford Scott

Setting up a reasonable and workable investment plan is one of the most important decisions an investor can make. But once that decision is made, an investor's work is only half done. An equally important task consists of monitoring the portfolio to make sure it is conforming to your original plan.

How do you go about monitoring your portfolio and its components?

Obviously, it depends on the kinds of investments you own, as well as personal preferences. Some individuals enjoy examining their holdings every single day. But for many investors, such close scrutiny isn't desirable, or even necessary.

Presented here is a short description of the minimum monitoring needs for the typical long-term buy-and-hold investor, who holds individual stocks and bonds, as well as some mutual funds. Table 1 presents sources of information that can help you more easily monitor your portfolio.

Individual Stocks

Investing in individual stocks on your own requires almost continuous monitoring. The primary point is to make sure that the stock continues to meet your stock selection criteria. Almost all stock selection approaches are heavily dependent on your own assessment of the company's prospects, and/or the market's assessment of the company's prospects. And most of those assessments focus on earnings. What you need to monitor most closely, therefore, are changes that may affect your own view and the market's view of future earnings.

Monitoring individual stocks includes:

News and announcements: Monitor daily, weekly or monthly. Financial publications and reports should be periodically monitored for any news or announcements that may affect your assessment of your company's earnings prospects—including new products, a change in management, earnings revisions, news concerning a major competitor, etc. Sources of information include daily and weekly financial publications; for computerized investors there are Internet-based services that scan investment news sources and notify you of news and announcements concerning stocks you have specified. On a less frequent basis, there are analyst research reports available from some brokerage firms.

Share price: Monitor daily or weekly. You should closely track the share price of your stock holdings to make sure you haven't missed any changes that will impact the long-term prospects for the company. Share prices quickly reflect changes in the market's perception concerning the stock's future. If a stock has a sudden increase or decrease, you are alerted to the fact that something has occurred; if you are unaware of what that event or announcement is, you need to find out what it is and how it affects your own assessment of the firm's outlook. Sources of information are the same as for news and announcements. If you are unable to find the cause of a price change, call the investor relations department of the company in which you are invested—an often-untapped source, particularly for investors of smaller firms.

Earnings reports & dividend distributions (if any): Monitor quarterly, with the timing dependent on the company's fiscal year. Earnings reports should be monitored to make sure the earnings are in line with what you expected; if they are not, you need to find out why not and re-evaluate your holding. If dividends are declared, make sure they are what you expected; increases and, perhaps more importantly, decreases should prompt re-assessment. Sources of information include company quarterly SEC filings (also available through the SEC's Internet site), financial publications, and Internet-based reporting services (see Table 1).

Company annual reports: Monitor annually. All companies send out annual reports to shareholders discussing

Maria Crawford Scott is editor of the AAII Journal.

Table 1.
Sources of Information for Portfolio Monitoring

Paper-Based Sources

Paper-based sources provide news and information on individual stocks and bonds, as well as mutual funds. However, investors must dig through the information to find their own holdings. Sources of information include:

Stock news & announcements; price quotes, earnings reports, dividend distributions; relative market performance:
The Wall Street Journal (business daily): Dow Jones & Company, Inc., 84 Second Ave., Chicopee, Mass. 01020; (800) 328-6800; wsj.com

Investor's Business Daily (business daily): Investor's Business Daily Inc., P.O. Box 661750, Los Angeles, Calif. 90066-8950; (800) 831-2525; www.investors.com

Barron's (weekly): Dow Jones & Co., 84 Second Ave., Chicopee, Mass. 01020; (800) 328-6800; www.barrons.com

S&P Earnings Guide (monthly): Standard & Poor's Corporation, 65 Broadway, 8th Floor, New York, N.Y. 10006; (800) 221-5277; www.stockinfo.standardpoor.com

Bond interest payment dates, call dates, credit ratings:
Standard & Poor's Bond Guide (monthly): Standard & Poor's Corporation, 65 Broadway, 8th Floor, New York, N.Y. 10006; (800) 221-5277; www.stockinfo.standardpoor.com

Moody's Bond Record (monthly): Moody's Investors Service, 99 Church Street, New York, N.Y. 10007-2701; (800) 342-5647 ext. 0546; www.moodys.com.

Mutual fund performance:
Quarterly Low-Load Mutual Fund Update (quarterly): American Association of Individual Investors, 625 N. Michigan Avenue, Suite 1900, Chicago, Ill. 60611; (800) 428-2244, (312) 280-0170; www.aaii.com.

Morningstar Mutual Funds (biweekly): Published by Morningstar Inc., 225 W. Wacker Dr., Chicago, Ill. 60606; (800) 735-0700; www.morningstar.net.

Value Line Mutual Fund Survey: 220 East 42nd St., 5th Floor, New York, N.Y. 10017; (212) 907-1803; valueline.com.

Computer-Based Sources

With computer-based sources, you can tailor the information you receive to the stocks you select. In addition, many of these sources will track the investment performance of the portfolio of stocks and/or mutual funds you have selected.

News & announcements; price quotes, earnings reports, dividend distributions; relative market performance; mutual fund performance; stock and mutual fund portfolio performance measurement:
Microsoft Investor— Internet address: investor.msn.com

Yahoo Finance—Internet address: quote.yahoo.com

Quicken—Internet address: www.quicken.com

PointCast Network—Internet address: www.pointcast.com (note that you must first download a program available at the Internet site to use this service)

Also: Many of the paper-based sources are also available on-line, providing more timely information and allowing individual tailoring.

Two Popular Portfolio Management Programs

Quicken 98 by Intuit, Inc., $34.95 to $44.95—Macintosh, Windows; 800/ 446-8848. Combines a basic portfolio management program with a personal management application, including checkwriting.

Captool 5.1 by Captools Co., $149—DOS, Windows (beta); 800/826-8082. One of the more advanced and most complete programs on the market, but also with the most complex interface.

A comprehensive survey of portfolio management programs was published in the May/June 1997 issue of Computerized Investing. *A link to the survey is contained in the Internet version of this Portfolio Strategies Workshop in the* AAII Journal *section of our Web site (www.aaii.com).*

the company's financial performance and operations. These reports should be examined to make sure the company will continue to follow the direction you expect.

Performance relative to the market: Monitor quarterly. Monitoring the price notifies you of immediate problems with the stock, but performance relative to the overall market can provide you with another longer-term clue concerning the market's opinion for the outlook of the stock. If a stock's performance is declining relative to the market, you may want to take a closer look at the company to see if there is something you have overlooked. Sources of information: Investor's Business Daily (look for changes in relative strength rankings).

Investment attributes: Monitor quarterly or at least annually. Periodically, you should re-examine your individual holdings to make sure they still meet your original investment criteria and to compare them to alternative investments that may better meet your criteria. When comparing against alternative investments, you need to take into consideration transaction costs and taxes—you may find that the returns on the alternative are not worth the costs. On the other hand, tax considerations may prompt a sale if a loss can be used advantageously. Sources of information: You have to use your own judgment on this one.

Stock portfolio performance: Monitor annually. In addition to monitoring your holdings, you should measure the performance of your individual stock portfolio, and compare it against an appropriate index or benchmark. For instance, if you are investing in large-capitalization stocks, you may want to compare your performance against the S&P 500, and the average growth and income mutual fund. The purpose is to see how well your own investment approach is doing; if you are underperforming similarly managed mutual funds, you may want to re-examine your approach. The Internet-based reporting services in Table 1 will also provide you with a total return figure for portfolios of stocks and/or mutual funds you have selected, as will the portfolio management software programs listed in Table 1.

Individual Bonds

For investors who hold their bonds to maturity—a buy-and-hold approach—the monitoring needs consist primarily of making sure nothing will affect the interest payments. Monitoring individual bonds includes:

Interest payments: Monitor quarterly, semiannually or annually, based on the payment schedule. Just make sure you received the payments. Sources of information include Moody's Bond Record and Standard & Poor's Bond Guide.

Call date: Monitor periodically, depending on the first call date if any. Call provisions allow the issuer to redeem the bond after a certain date, rather than at maturity. If an issue is called, you may receive a premium over par, but your return will be less than if you had held to maturity. Typically, bonds are only called if current interest rates drop below the coupon. Sources of information include Moody's Bond Record and Standard & Poor's Bond Guide.

Credit rating: Monitor quarterly or annually. A bond's credit rating reflects the degree of probability that a bond issue will go into default. A decline in a bond's rating will cause the current price of the bond to drop, which may not be a concern if you are holding to maturity; nonetheless, if the rating declines dramatically, you may have to reassess whether your interest payments are at risk. On the other hand, if your bond's rating rises, its current price will also rise, and you may want to sell the bond for the higher price. Sources of information include Moody's Bond Record and Standard & Poor's Bond Guide.

Mutual Funds

Mutual funds do not need to be monitored as closely as individual stocks, but they can't be totally ignored. Of course, changes may affect the fund, but they do not need to be acted upon as quickly as with individual stock holdings. Monitoring mutual funds includes:

Fund performance: Monitor quarterly. Monitoring fund performance is necessary to determine how well the professional expertise you have hired is doing. This includes examining the performance of each fund against its peers (funds with similar objectives) and an appropriate index. If the performance figures are good relative to the benchmarks, no problem. However, if the figures are unsatisfactory, you have to decide if you want to sell the fund and find a better replacement, or whether the unsatisfactory performance is only likely to be short-term. While you should examine performance quarterly, don't be overly jumpy if results are poor. Instead, use the opportunity to take a closer look and try to determine why the performance is off. Sources of information are listed in Table 1.

Quarterly and annual reports: Monitor quarterly. All funds send out periodic reports to shareholders detailing the fund holdings; often, they discuss fund performance, and any changes that fund management may be making in light of their investment outlook. These reports should be examined to make sure that the fund continues to follow the approach that you hired it to do.

Asset Allocation & Rebalancing

In addition to monitoring the individual components of your portfolio, you need to review the asset allocation of your portfolio to make sure it continues to reflect your plan. Monitoring your asset allocation consists of:

Asset Allocation: At least annually. To make sure you are sticking with your original plan, you need to compare your current asset allocation with your desired asset allocation. Determining your current asset allocation is relatively easy—you simply total up your investments in any particular asset category and divide by your total investment portfolio. If you use a portfolio management program (see Table 1), it will calculate your asset allocation at any given time for you.

Rebalancing: At least annually, at the same time you determine your asset allocation. If your allocation starts to stray significantly—by 5 percentage points or more—from your desired plan, you need to rebalance your portfolio to bring it back in line. When rebalancing, make sure you keep tax liabilities to a minimum. For that reason, it is better to use new money generated from salary, income, and capital gains distributions, or from one-time sources such as poorly performing investments, property sales, and inheritances. Investments should be sold because of poor relative performance, not to rebalance your portfolio.

Total Portfolio Performance

Although the individual pieces of your portfolio may be performing well, you periodically need to measure how those pieces are performing as a group. This is necessary to make sure that the long-term value that you hope to achieve with your investment program is realistic.

Portfolio performance: Measure annually. In general, you should be examining the return on your portfolio to make sure it is within the target range you expected, based on the investment mix you have settled upon. If it isn't, you may need to make some adjustments in your future projections. For instance, you may have to increase your savings rate, take on more risk to achieve the target that you set, or simply adjust your target value downward, settling for less in the future. How do you measure portfolio performance? Portfolio management programs offer the easiest solution, and a sampling of the more popular programs are presented in Table 1.

Conclusion

There is a vast amount of information—to some, overwhelming—to help you monitor your holdings. Computers make it much easier to tailor the information so that you only receive what you need.

Table 1 lists some sources of information that are paper-based, and several of the more popular computer-based sources and programs. A comprehensive survey of portfolio management programs was published in the May/June 1997 issue of Computerized Investing. A link to this survey is contained in the Internet version of this Portfolio Strategies Workshop, in the AAII Journal section of our Web site (www.aaii.com).