In my last column, I discussed how investors look at their overall diversification. One astute reader asked me at 6:00 a.m., in the El Gancho locker room, “What about real estate?” This reminded me of how much of Americans’ net worth has been traditionally been held in real estate, but how much that has shifted in the past few years.

Twenty years ago, the total value of personal real estate far outweighed that of individual stock market holdings. Today, families now have over 10 trillion dollars in the stock market, over 40% more than their real estate value. What does this mean?

With so much money tied to the market it behooves us to look at the importance of evaluating how well the investments are doing. How does one figure this out? The first step is to go through the hard work of organizing your assets to determine exactly what kind of investments are held. The second step is to master a few simple steps that will help you figure out if your choices are performing up to par.

My swimming companion, not anxious to take his early morning plunge, took some time to recount to me how good his rental properties turned out as investments. I casually asked what his after tax, net rate of return was. He really didn’t know. Like most people who come to our office for an initial securities portfolio review, he was confused as to how to figure out if his rate of return is good or not.

How many of us sit down and dispassionately review our assets’ performance? The evaluation of one’s returns goes hand in glove with the diversification procedures covered in my last article. The first question is, to paraphrase Les Meanny Eddie Harris’s famous jazz ditty, “Compared to what?” The second question is, “How do I do this calculation?” The final step is how to find and compare, side by side with your investments, appropriate benchmarks for your portfolio. Then, and only then, can you evaluate whether particular investments are doing their job!

Divide your portfolio into types of “asset classes” or investment categories. Those commonly used are: U.S. large companies, U.S. small companies, international large companies, international small companies, and emerging markets. For bonds, divide your holdings into two areas: tax-free or taxable, and then make certain they are short, intermediate, or long-term maturities. If you don’t know what class an investment or mutual fund falls into, borrow some free research tools described below and use the following guidelines.

Many investment research tools, such as Valueline, Standard and Poors, and online services, are available at the library or via the Internet. We divide

U.S. stocks into two categories: over or under 5 billion dollars in value. Wow, is a $4 billion company really small? Not to you or me but in trying to judge the performance of your companies versus their peers, it is a useful starting point. Foreign companies' names usually look strange and exotic and often say ADR at the end.

For bonds, if there is a name of a city, county, or state in the title, then it is most likely a tax-free bond. To determine when the bond matures, look at the description on your statement. If it is less than seven years; consider it short-term, between seven and fifteen years, call it intermediate. Bonds over fifteen years are long-term bonds. The final information needed on bonds is their quality. If a bond has an "A" or better rating, which you can easily find through a research service, then it is "investment grade." Bonds that have only a "B" or below are "non-investment grade."

Now that you have sorted through your goodies and decided which group they belong in, it is time to calculate their rate of return! Take a sheet of paper, make 7 columns, and list each asset in one column, putting their beginning values as of January 1st in the next column. Each group of investments should be kept separate on your paper. Leave room to add up the items within each group. In the third column, put the ending value and then find the difference and put it in column four. Divide the difference by the beginning value and put this in the next column (column 5). This is the annual rate of return for each item inside a group. Take each investment group or asset class and add up their beginning of year values. This will give you a total amount for that asset class. Put this in the space you have left over. Now, divide the value of each particular investment by the total amount in that group to give you what we call the weight factor. Write this down to the right of the rate of return for that investment. This is column seven.

For example, if you have a subtotal of $15,000 in U.S. large stocks, and one stock has a value of $10,000, that stock's weight factor is 6.

Multiply the factor times the rate of return. If the stock had returned 20% for 1999, you end up with the return factor, which goes in our final column. In the case illustrated below, it would be .132. By adding up all these return factors for your investments in a group, you end up with the weighted average return for that asset class. Your number can be changed to a percentage by moving the decimal point over two spaces to the right and adding a % label. See the example below.

1	2	3	4	5	6	7
	Beginning Value	Ending Value	Difference	Return	Weight Factor	Return Factor
Stock #1	10,000	12,000	2,000	.20	.66	.132
Stock #2	5,000	5,500	500	.10	.33	.033
Sub-total for Group	15,000	17,500	2,500	N/A	1.0	.165=16.5%

Now, pat yourself on the back. You have arrived where few have dared to go before! Have a tea break, as you have now done more adding, multiplying, and dividing, than any time since high school! This is not rocket science, but it takes some effort to get everything organized. You will have a great feeling of satisfaction and self-knowledge with regard to your money if you sit down and take the time to organize these numbers. Just once a year is usually sufficient.

Now comes the fun. Find a financial publication and look for the relative index section. The most common indexes are the Dow Jones Industrial Average and the Standard and Poors 500. These are appropriate to compare to your U.S. large company stocks. For U.S. small stocks, use the Russell 2000 or Wilshire 4500 indices. For international companies use the EAFE (Europe, Asia, and Far East) index, which is the benchmark for international large companies. International small and emerging markets' indexes can be found online. Look for the I.F.C.I. investable index.

For bonds, look for an index that says government/corporate and one that says municipal or tax free. Any one will do. Put the index return next to the total return factor for the appropriate asset class. How does your performance look compared to the index? If you are within a few percentage points, congratulations. If not, try to see which asset caused the lack of performance.

Despite the press hoopla about avid investors, you're not alone if you only want to keep up with the total stock market's return. You can do this by investing in index funds provided by companies such as Wilshire, Vanguard, and Schwab. There are socially responsible indices as well, which have outperformed most of the more popular socially responsible mutual funds. The basic indices have also been split up into sector indices; technology, telecommunications, biotechnology, transportation, etc. It goes on and on. If you are looking to make a sound, long-term investment decision, these vehicles are worth considering. For larger portfolios, studies have shown that using individual stocks with broad industry diversification is more efficient from an investment and tax point of view. Whichever approach you use, try this analysis yourself or get some help from a friend on a Sunday afternoon, and then take him or her out to dinner! Much like getting your information ready for taxes, knowing your rate of return is key to tracking your progress towards long-term financial security.

Robert A. Rikoon is president of Rikoon Investment Advisors. He can be reached at 989-3581 or via e-mail: rrikoon@aol.com. His recent book "Managing Family Trusts: Taking Control Of Inherited Wealth" *is a guide for inheritors and investors desirous of holistic financial counseling.*