With gasoline prices rising substantially over the past decade, Americans increased their sensitivity for their vehicle's efficiency, known as "miles per gallon" (mpg). More miles traveled per gallon of fuel burned in our automobiles equates to money in our pockets.

A simple corollary exists in the investment world. We want our investments to be efficient, not as measured by mpg, but as measured by something called an "alpha ratio."

An alpha ratio measures the performance of a mutual fund on a risk-adjusted basis. It seeks to answer the question, "How well does this fund perform, per unit of risk taken?" The alpha ratio considers the volatility of a mutual fund, and its performance relative to a benchmark, usually the S&P 500. The excess (or deficient) return relative to the benchmark is the alpha ratio. The S&P 500 has an alpha ratio of 0.00, by definition.

The alpha is an important consideration when evaluating investment options because it is a critical component of determining a "risk-reward ratio." While alpha ratios do change over time, they do not typically shift as significantly as rates of return over a given period of time. So, while they are not predictors of performance, they may be considered as more reliable indicators of efficiency, in contrast with only considering historical returns.

We continually monitor the alpha ratios in your funds as part of the analysis and management of your portfolio. A variety of factors can influence alpha ratios over time, but when we see an apparent sustained negative trend emerging, we will bring that to your attention, along with alternative solutions.