Why Beating the S&P 500 is the Wrong Goal

How you perform against one index bears little on your financial well-being

Study after study has shown that beating the S&P 500 over the long-term is nearly impossible. Yet, nearly every time I meet with a new investor, they ask the question, "How have you done against the market (S&P 500)?"

My reply is generally something along the lines of "is that what you're looking for?" and their answer is either a look of confusion or a resounding "yes."

However, in further conversation, investors come to understand that this is the wrong question. It inevitably will lead them down a path of failed expectations and missed goals.

Beating the S&P 500 sounds great, but it does little to help investors gain peace of mind. Moreover, it may also be impractical and require taking on risks that are unacceptable to you.

What are Your Goals?

You don't have to look back far, 2008-09 is not that long ago. If your portfolio lost 35% in 2008 and gained 3% in 2011, you beat the S&P in both years. Fast forward to 2018 – if your portfolio lost 5%, you beat the S&P 500. So what?

None of those seem like attractive returns to me.

My point is simply that benchmarking your goals and expectations to the S&P 500 or any other one index is silly and impractical.

Instead of heedlessly chasing the S&P 500, investors should:

1. Take account of their goals.
2. Evaluate the costs associated with reaching those goals.
3. Task their investment adviser with developing a plan that is likely to achieve those goals with the least amount of risk possible.

Be Relevant

Nowhere is relative benchmarking more prevalent and more irrelevant than in investing. How you perform against the S&P 500 bears little on your financial well-being.

If you are in retirement and have a properly structured portfolio, you probably underperformed the S&P 500 in 2021 and maybe have outperformed YTD so far in 2022. Big deal. The S&P 500 is not trying to accomplish with its money what you try to accomplish with yours.