

Tech Tip Thursday: Show the Best Performance Calculation Method for Your Clients



Performance is more than just a number, it's a story. That's why, at Orion we offer multiple ways to tell your performance story using either Time-Weighted Return (TWR), Internal Rate of Return (IRR) or Simple Rate of Return. But, when it comes to telling this story to clients, sometimes it may make sense to use a different performance calculation than the one you use with the rest of Orion. In this week's Tech Tip, we'll show you how you can now change the performance calculation method displayed in the Client Portal, enabling you to display the performance calculation method that makes the most sense.

But first, let's do a quick refresher on the differences between performance calculation methods:

Time-Weighted Return (TWR)

TWR removes the impact of cash flows and account size. By removing these factors, TWR can appropriately calculate the performance of the money manager. Many managers and advisors prefer to show TWR performance on investor reports to keep the consistency between client reports and composite presentations and to provide investors with the best apples-to-apples comparison between managers.

Internal Rate of Return (IRR)

IRR (sometimes referred to as dollar-weighted return or money-weighted return) is often used when the money manager has control or is directing the investor when to add or remove funds from management. The timing and size of cash flows

can greatly impact IRR performance, which is exactly what makes IRR appropriate for showing the return of the manager when the manager is in control of cash values, and less appropriate when he or she is not. IRR is also a good option when the goal is to show investor return rather than just the performance of the manager. Because IRR is based upon size of external cash flows and when they occur, it provides a good measure of a client's actual return on investment.

Simple Rate of Return

As its name implies, this calculation is a simple method that compares the starting value and total contribution values of a portfolio to the ending value and total distribution values of that same portfolio. Simple rate of return is performance without any compounding for investment duration or the size of any individual cash flow. This is often the easiest method for investors to understand but it does not always tell the full story; neglecting to incorporate the impact of the manager or conditions of the market due mostly to the impact (or lack thereof) of cash flows. If an investor adds money to an account at a market peak, the performance may be adversely affected regardless of the actions of the manager.

How to Change Calculation Methods

Whether you want to differentiate your Client Portal performance story or you're interested in matching calculation methods with the rest of Orion, here's how to customize your performance calculation method within Orion's Client Portal...

1. Open the Client Portal and select any household with a login
2. Next, select "Admin" and click "Settings"
3. Open the "Performance Calculation" link and select the desired performance calculation method

Orion Pro Tip: Interested in keeping your performance returns consistent across all of Orion? Select "Database Default" from the drop-down and hit "Save" to ensure all of your calculations match across Orion.

If you have additional questions about what was covered in this article, please log into Orion Social, click Contact Us, and start up a chat with our Reporting SME

Team.

Not an Orion client yet? Get in touch with us [here](#) to schedule a demo.

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