Digging deeper: Measuring performance

1. Holding period return (total return)

Holding period return (total return)

Category:
Investment insights

The most straightforward form of performance measurement is the holding period return (HPR). The HPR is also called the total return, as it consists of both the capital gains and the income from the investment.

The HPR is expressed as a percentage and reflects the growth in value of an asset and any income that it produces over a given period of time: the holding period.

The holding period is the time between the purchase of the asset and its sale.

The HPR allows returns from different investments to be compared over the same period. However, it does not take the benchmark into account, therefore is difficult to use for comparison purposes

Formula for calculating the holding period return (HPR) of a fund:

Take the final value of the investment, plus any income previously paid out, less the original investment, divided by the original investment.

$$R = \frac{(D + V1 - V0)}{V0}$$

- R = return on the investment
- D = income paid out
- V1 = sale price of the investment at the end of its term
- V0 = purchase price of the investment at the start of its term

Example

Income paid out to client of £1,000 during the term of the investment (one year). The investment's current value is £28,000, and the original amount invested was £25,000.

D = £1,000

V1 = £28,000

V0 = £25,000

To calculate the holding period rate of return:

$$\frac{£1{,}000 + £28{,}000 - £25{,}000}{£25{,}000}$$

The holding period return for the fund = 0.16 or 16%.

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206150 (08/22). UK.