Relative performance and absolute performance are two metrics used in the investment world to measure investment returns. While both metrics are important, investors often prioritize one over the other.

Absolute performance measures the actual return of an investment, while relative performance compares the return of an investment to a benchmark or index.

Investors who prioritize relative performance may be more susceptible to making emotionally driven decisions. For example, if their investment is underperforming compared to the benchmark, they may feel pressure to take on more risk in order to catch up, potentially leading to poor investment decisions.

On the other hand, investors who prioritize absolute performance tend to be more focused on achieving their own personal investment goals, such as saving for retirement or a child's education. They may be more likely to stick to a well-diversified, long-term investment strategy, even if it means underperforming compared to the benchmark in the short term.

To illustrate the difference between relative and absolute performance, let's take the example of the SPY returns from 2001 till 2023 and compare it with an absolute return of 8%. The comparison shows that while the SPY returns may fluctuate in the short term, an investor who focuses on achieving an absolute return of 8% over the long term is more likely to achieve their investment goals.



In summary, while both relative and absolute performance are important, it's crucial for investors to prioritize their own personal investment goals and remain disciplined in their investment approach.