

ANNUALIZED RETURN ON INVESTMENT

When return on investment is adjusted to a period of one year, then it is known as '**ANNUALIZED RETURN ON INVESTMENT (ROI)**'. Returns on investment from different investment options made for various lengths of periods can be brought to a common format, in form of an Annualized ROI.

FORMULA

$$\left\{ \frac{\text{Ending value}}{\text{Beginning value}} \right\}^{\left[\frac{1}{\left\{ \frac{\text{Ending date} - \text{Starting date}}{365} \right\}} \right]} - 1$$

:: EXAMPLE ::

Suppose Mr.X buys a stock for US\$10 on 1st January 2020 and sells it for US\$12 after 200 days.

- The normal ROI = $(12-10/10) \times 100 = 20\%$
- Annualized ROI = $\left\{ (12/10) \right\}^{\left[\frac{1}{\left\{ \frac{200}{365} \right\}} \right]} - 1 = 36.50\%$

IMPORTANCE

Takes Compounding Factor into Consideration

It helps in making comparison between investments

LIMITATIONS

It can prove to be misleading in cases of new investment avenues or in times of a turbulent economic environment.