

# The Stabilizing Power of Diversification (2006–2015)

## Aggressive Growth Allocation

### Diversification can help you smooth out the market's ups and downs over time.

To create a well-diversified portfolio, consider spreading your equity holdings among growth, value, small-cap, large-cap and international stocks; balancing your fixed-income holdings among different types of bonds; and adding specialty holdings such as REITs and commodities. The chart shows the year-by-year returns of several broad-based asset classes since 2006. Notice how the Diversified Portfolio (yellow), composed using indexes of all asset classes listed and rebalanced annually, was a more consistent performer than the individual asset classes.

For investors, a well-diversified portfolio can often alleviate concerns about being invested in the right place at the right time. Properly allocating your assets among various asset classes and diversifying your portfolio among several investment vehicles are methods designed to provide you with an efficiently diversified portfolio strategy that reduces volatility.

### About the chart

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2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Annualized Return	Standard Deviation
35.06	39.82	5.24	79.02	27.96	8.29	18.63	38.82	30.14	3.20	7.41	25.48
32.55	16.23	1.77	37.01	26.85	7.84	18.06	32.39	13.69	1.38	7.31	15.06
26.86	11.63	-33.79	32.46	19.28	2.11	17.90	23.29	5.97	0.55	6.80	19.78
22.35	9.57	-35.65	27.99	19.20	0.07	16.35	19.99	5.19	0.03	5.74	17.26
18.37	6.97	-37.00	27.17	16.83	-4.18	16.00	2.47	4.89	-0.39	4.51	3.22
15.79	5.49	-37.73	26.46	15.06	-5.92	15.77	0.05	0.02	-4.41	3.95	23.60
4.80	4.78	-38.99	18.91	8.21	-11.73	4.21	-2.02	-1.82	-4.90	3.50	18.49
4.33	-1.57	-43.06	5.93	6.54	-13.32	0.08	-2.27	-4.48	-14.60	1.17	0.55
2.07	-15.69	-53.18	0.15	0.13	-18.17	-1.06	-9.52	-17.01	-24.66	-6.43	18.16

**Cash** is defined as The Barclays US Treasury Bill 1-3 Month TR Index, which is an unweighted index that measures the performance of one- to three-month maturity of U.S. Treasury bills.

**Fixed Income** is defined as The Barclays Aggregate Bond Index, which covers the U.S. investment grade fixed-rate bond markets, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. Investing in fixed-income securities involves credit and interest rate risk. When interest rates rise, bond prices generally fall.

**Domestic Large Cap Equity** is defined as The S&P 500 Index, which is a free-float market capitalization index of the 500 largest publicly held U.S.-based companies, capturing 75-percent coverage of U.S. equities. It is often used as a proxy for the American stock market.

**Domestic Small Cap Equity** is defined as The Russell 2000 Index, which measures the performance of the smallest 2,000 U.S.-based companies in the Russell 3000 Index and serves as a benchmark for U.S. small-cap stocks. The equity securities of small companies may not be traded as often as equity securities of large companies, so they may be difficult or impossible to sell.

**International Developed Equity** is defined as The MSCI EAFE Index (Europe, Australasia, Far East), which is a free float-adjusted market capitalization index that is designed to measure the equity performance of 22 developed markets, excluding the U.S. and Canada. The MSCI EAFE Index is commonly used as a benchmark for equities representing the developed world outside of North America. International investing presents certain risks – like currency, custodial, political and transparency risk – not associated with investing solely in the United States.

**International Emerging Market Equity** is defined as The MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity performance in the global emerging markets. Investing in emerging markets involves greater risk than investing in more established markets due to exchange rate changes, political and economic upheaval, and low market liquidity.

**Real Estate** is defined as The FTSE NAREIT Equity REIT Index, which includes all equity REITs trading on the NYSE, Euronext and the NASDAQ OMX. Equity REITs are defined as firms that own, manage and lease investment-grade commercial real estate. Investing in a non-diversified fund that concentrates holdings into fewer securities or industries involves greater risk than investing in a more diversified fund. Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

**Commodities** are defined as The Bloomberg Commodity Index TR, which is a diversified benchmark for commodities and is composed of futures contracts on physical commodities. It uses both liquidity data and U.S. dollar-weighted production data in determining the relative quantities of included commodities. No related group of commodities (e.g., energy, precious metals, livestock or grains) may constitute more than 33 percent of the index.

**Standard deviation** is an indicator of the portfolio's volatility around its average annual return. The larger the portfolio's standard deviation, the greater the variability of the portfolio's annual return.

Aggressive Growth Allocation Composition		Aggressive Growth Allocation
Asset Class	Representative Index	
Cash	Barclays US Treas 1-3 Mo T-Bill	3%
Fixed Income	Barclays US Aggregate Bond TR	-
U.S. Large Cap Equity	S&P 500 TR	19%
U.S. Small Cap Equity	Russell 2000 TR	29%
International Developed Market Equity	MSCI EAFE GR	14%
International Emerging Market Equity	MSCI EM GR	20%
Real Estate	FTSE NAREIT Equity REIT TR	10%
Commodities	Bloomberg Commodity TR	5%

The returns of the asset allocation example assumes an annual rebalancing back to original weights and the linking of monthly returns.

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18.37	8.42	-33.79	27.99	16.83	0.07	16.35	19.83	5.97	0.03	5.81	13.97
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Growth Allocation Composition		Growth Allocation
Asset Class	Representative Index	
Cash	Barclays US Treas 1-3 Mo T-Bill	3%
Fixed Income	Barclays US Aggregate Bond TR	12%
U.S. Large Cap Equity	S&P 500 TR	35%
U.S. Small Cap Equity	Russell 2000 TR	15%
International Developed Market Equity	MSCI EAFE GR	15%
International Emerging Market Equity	MSCI EM GR	10%
Real Estate	FTSE NAREIT Equity REIT TR	5%
Commodities	Bloomberg Commodity TR	5%

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## Moderate Allocation

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18.37	7.35	-33.79	27.17	16.83	0.07	16.35	14.36	5.71	0.03	5.55	10.55
15.79	6.97	-35.65	26.46	15.06	-0.30	16.00	2.47	4.89	-0.39	4.51	3.22
14.83	5.49	-37.00	22.40	12.98	-4.18	11.45	0.05	0.02	-1.78	3.95	23.60
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Moderate Allocation Composition		Moderate Allocation
Asset Class	Representative Index	
Cash	Barclays US Treas 1-3 Mo T-Bill	3%
Fixed Income	Barclays US Aggregate Bond TR	32%
U.S. Large Cap Equity	S&P 500 TR	25%
U.S. Small Cap Equity	Russell 2000 TR	10%
International Developed Market Equity	MSCI EAFE GR	15%
International Emerging Market Equity	MSCI EM GR	5%
Real Estate	FTSE NAREIT Equity REIT TR	5%
Commodities	Bloomberg Commodity TR	5%

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Conservative Allocation Composition		Conservative Allocation
Asset Class	Representative Index	
Cash	Barclay's US Tre as 1-3 Month T-Bill	3%
Fixed Income	Barclays US Aggregate Bond TR	52%
U.S. Large Cap Equity	S&P 500 TR	15%
U.S. Small Cap Equity	Russell 2000 TR	5%
International Developed Market Equity	MSCI EAFE GR	10%
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4.80	4.78	-37.73	12.22	8.21	-11.73	4.21	-2.02	-1.82	-4.41	3.50	18.49
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**Domestic Large Cap Equity** is defined as The S&P 500 Index, which is a free-float market capitalization index of the 500 largest publicly held U.S.-based companies, capturing 75-percent coverage of U.S. equities. It is often used as a proxy for the American stock market.

**Domestic Small Cap Equity** is defined as The Russell 2000 Index, which measures the performance of the smallest 2,000 U.S.-based companies in the Russell 3000 Index and serves as a benchmark for U.S. small-cap stocks. The equity securities of small companies may not be traded as often as equity securities of large companies, so they may be difficult or impossible to sell.

**International Developed Equity** is defined as The MSCI EAFE Index (Europe, Australasia, Far East), which is a free float-adjusted market capitalization index that is designed to measure the equity performance of 22 developed markets, excluding the U.S. and Canada. The MSCI EAFE Index is commonly used as a benchmark for equities representing the developed world outside of North America. International investing presents certain risks – like currency, custodial, political and transparency risk – not associated with investing solely in the United States.

**International Emerging Market Equity** is defined as The MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity performance in the global emerging markets. Investing in emerging markets involves greater risk than investing in more established markets due to exchange rate changes, political and economic upheaval, and low market liquidity.

**Real Estate** is defined as The FTSE NAREIT Equity REIT Index, which includes all equity REITs trading on the NYSE, Euronext and the NASDAQ OMX. Equity REITs are defined as firms that own, manage and lease investment-grade commercial real estate. Investing in a non-diversified fund that concentrates holdings into fewer securities or industries involves greater risk than investing in a more diversified fund. Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

**Commodities** are defined as The Bloomberg Commodity Index TR, which is a diversified benchmark for commodities and is composed of futures contracts on physical commodities. It uses both liquidity data and U.S. dollar-weighted production data in determining the relative quantities of included commodities. No related group of commodities (e.g., energy, precious metals, livestock or grains) may constitute more than 33 percent of the index.

**Standard deviation** is an indicator of the portfolio's volatility around its average annual return. The larger the portfolio's standard deviation, the greater the variability of the portfolio's annual return.

Ultra Conservative Allocation Composition		Ultra Conservative Allocation
Asset Class	Representative Index	
Cash	Barclay's US Tre as 1-3 Month T-Bill	3%
Fixed Income	Barclays US Aggregate Bond TR	67%
U.S. Large Cap Equity	S&P 500 TR	10%
U.S. Small Cap Equity	Russell 2000 TR	-
International Developed Market Equity	MSCI EAFE GR	10%
International Emerging Market Equity	MSCI EM GR	-
Real Estate	FTSE NAREIT Equity REIT TR	5%
Commodities	Bloomberg Commodity TR	5%

The returns of the asset allocation example assumes an annual rebalancing back to original weights and the linking of monthly returns.

The results shown are not the actual performance figures for any particular client.

Source of returns: Morningstar Direct. (Jan. 1, 2006 through Dec. 31, 2015)

