The importance of diversification

It is difficult to predict which types of investments will do best in any given year.*


**Annualized returns from 2008 to 2017.

***Volatility is defined as standard deviation (2008 – 2017); the greater the volatility, the greater the variance to the mean return of a given asset.
Asset allocation: a case for broad portfolio diversification

This table conveys why asset class and style diversification are important when building your investment portfolio. It also shows how difficult it is to predict an outperforming asset class or style for any given year. Sometimes the best-performing asset class one year becomes the poorest performer the next year and vice versa—e.g., the Small-Cap equity asset class in recent years.

The table also highlights the importance of risk management and portfolio rebalancing. One of the keys to achieving your financial goals is to have a diversified investment strategy based on your risk tolerance and investment time horizon. An appropriate allocation and regular rebalancing may help reduce your portfolio’s risk and volatility.

Notes:

- Standard & Poor’s 500® Index (S&P 500) is an unmanaged, market-cap-weighted index of 500 common stocks selected for their market size, liquidity and industry group representation within the U.S. equity market.
- Large-Cap Growth uses the Russell 1000® Growth Index, which measures the performance of Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.
- Large-Cap Value uses the Russell 1000® Value Index, which measures the performance of Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.
- Mid-Cap uses the Russell Midcap Index, which consists of the smallest 800 companies in the Russell 1000® Index, as ranked by total market capitalization. This mid-cap index represents approximately 26% of the Russell 1000® total market capitalization.
- Small-Cap uses the Russell 2000® Index, which consists of the smallest 2,000 companies in the Russell 3000® Index, representing approximately 8% of the Russell 3000® total market capitalization.
- International Stocks uses the MSCI EAFE Index (Europe, Australasia, Far East), which is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the United States and Canada.
- Emerging Markets Equity uses the MSCI Emerging Markets Index, which measures equity market performance in global emerging markets. It is a float-adjusted market capitalization index. As of December 2015, it consisted of indexes in 23 emerging economies.
- Bonds use the Barclays Capital U.S. Aggregate Bond Index as the benchmark index. It is made up of the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index, and includes securities of investment-grade quality that have at least one year to maturity and an outstanding par value of at least $100 million.
- TIPS uses the Barclays Capital U.S. Treasury Inflation Protected Securities Index (Series L), which measures the performance of the U.S. Treasury Inflation Protected Securities (“TIPS”) market. The index includes TIPS with one or more years remaining maturity and total outstanding issue size of $500 million or more.
- High-Yield Bond uses the Barclays Capital High-Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Only securities with more than one year to maturity qualify for inclusion in the index.
- 60/40 Diversified Portfolio uses a combination and allocation weighting of the following indices: Russell 1000 Growth TR USD (13%), Russell 1000 Value TR USD (14%), Bloomberg Barclays US Aggregate Bond TR USD (19%), Bloomberg Barclays US Treasury US TIPS TR USD (15%), Russell Mid Cap TR USD (12%), Russell 2000 TR USD (3%), Bloomberg Barclays US Corporate High-Yield TR USD (6%), MSCI EAFE GR USD (13%) and MSCI EM GR USD (5%).