Staying balanced in volatile markets

Portfolio Discussion | U.S.

2Q | 2015

Building and maintaining an appropriate asset allocation can help increase returns and reduce volatility over time. Market volatility can be an opportunity to rebalance back to an allocation that reflects your investment and income objectives, time horizon and tolerance for risk.

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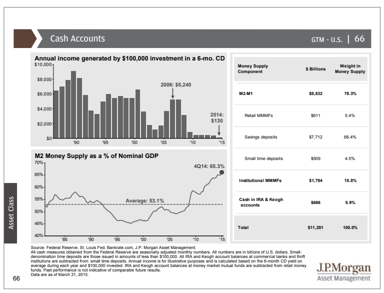

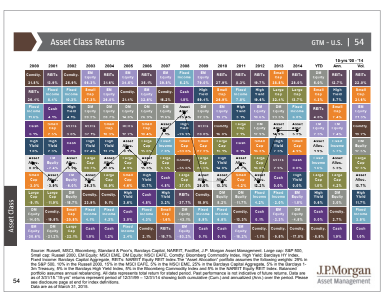

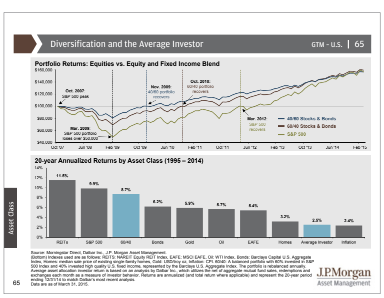

A diversified portfolio can help increase income

- Eight years ago, the annual income from a $100,000 6-month CD was roughly $5,000. Today, it is a fraction of that, and well below the rate of inflation when expressed in percentage terms.
- Although the dividend yield of the S&P 500 is hovering right around the yield of 10-year Treasuries, yields of non-U.S. equities are typically higher than those of U.S. stocks, suggesting attractive income opportunities may exist abroad.
- Parking savings in cash might seem like the safe choice at times, but it may also require that investors take on additional risk later in an effort to make up lost ground.

Diversification can help improve returns and reduce volatility

- Individual asset class returns can vary significantly, especially in the short term.
- Since asset classes don't move in lockstep, being appropriately diversified across a broader opportunity set can help reduce volatility and increase long-term returns.
- Because asset allocation is a key driver of returns, it's important to rebalance regularly to adjust for market fluctuations and resulting portfolio imbalances.

Broad diversification among asset classes can improve a portfolio's risk/return profile

- Over the last 20 years, retail investors have under-diversified and underperformed.
- A well-diversified portfolio has delivered better risk-adjusted returns over a 10-year period than a portfolio comprised of just stocks and bonds.
- While it is easy to lose sight of the benefits of a diversified portfolio in the midst of an equity bull market, an investor in a balanced portfolio would have recovered their 2008 losses significantly faster than an investor in a pure equity portfolio.

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Investment implications

- Because asset classes do not move in lockstep, being appropriately diversified can help enhance returns and reduce volatility.
- Periodic rebalancing and investing for the long term can further improve a portfolio's risk/return characteristics.

NEXT STEPS

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This piece was written as of March 31, 2015, using data from the *Guide to the Markets* as of March 31, 2015.

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