

What Is Diversification?



Diversification involves spreading investments across securities or asset classes to reduce dependence on a single category. This can help optimize investment performance in volatile markets.

Charting a steady course

The table below shows how multiple stock and bond indexes performed over 10 years. While it's tempting to chase categories with double-digit gains, note that many of those same categories experienced double-digit losses in

Representative Index	Asset Class/Sector	Diversified Portfolio Allocation
Russell 1000 Index (R1000)	U.S. Equity Large-Cap	36%
Russell 2000 Index (R2000)	U.S. Equity Small-Cap	6%
MSCI EAFE Index (EAFE)	Developed International Equity	15%
MSCI EM (Emerging Markets) Index (EM)	Emerging Markets Equity	3%
Bloomberg U.S. Aggregate Index (USAgg)	U.S. Investment-Grade Bonds	28%

other years. The white boxes show how a diversified portfolio with a 60% stock/40% bond allocation performed each year over the 10-year period. The diversified portfolio had only two years of negative performance and still outperformed many other sectors in those down years.

Representative Index	Asset Class/Sector	Diversified Portfolio Allocation
Bloomberg Global High Yield Index (GHY)	High Yield Bonds	4%
Bloomberg Global Agg. Ex-USD Bond Index (GxUSDB)	International Bonds	4%
J.P. Morgan EM Bond Index Global (EMB)	Emerging Market Bonds	4%
Diversified Portfolio (DP)	Asset Allocation	—

The Diversified Portfolio assumes the following weights: 60% stocks and 40% bonds represented by the indices above and assumes monthly rebalancing. Data as of 12/31/23. Diversification cannot assure a profit or protect against loss in a declining market.

NO ONE CAN PREDICT WHICH ASSET CLASSES WILL BE IN FAVOR

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
R1000 13.24%	EMB 1.23%	R2000 21.31%	EM 37.28%	USAgg 0.01%	R1000 31.43%	R1000 20.96%	R1000 26.45%	GxUSDB -12.71%	R1000 26.53%
DP 5.98%	R1000 0.92%	GxUSDB 14.27%	EAFE 25.03%	GHY -2.15%	R2000 25.52%	R2000 19.96%	R2000 14.82%	USAgg -13.01%	EAFE 18.24%
USAgg 5.97%	USAgg 0.55%	R1000 12.05%	R1000 21.69%	GxUSDB -4.06%	EAFE 22.01%	EM 18.31%	DP 13.49%	EAFE -14.45%	R2000 16.93%
EMB 5.53%	DP -0.43%	EM 11.19%	DP 15.48%	EMB -4.61%	DP 20.34%	DP 13.49%	EAFE 11.26%	DP -16.44%	DP 16.35%
R2000 4.89%	EAFE -0.81%	EMB 10.19%	R2000 14.65%	R1000 -4.78%	EM 18.42%	GHY 10.11%	GxUSDB 0.99%	EMB -16.45%	GxUSDB 14.04%
GxUSDB 0.01%	GxUSDB -2.72%	DP 8.01%	GHY 10.51%	DP -5.11%	EMB 14.42%	EAFE 7.82%	EMB -1.51%	GHY -18.70%	EMB 10.45%
EM -2.19%	R2000 -4.41%	USAgg 2.65%	GxUSDB 10.43%	R2000 -11.01%	GxUSDB 12.56%	USAgg 7.51%	USAgg -1.54%	R1000 -19.13%	EM 9.83%
GHY -3.08%	GHY -6.02%	GHY 1.49%	EMB 9.32%	EAFE -13.79%	USAgg 8.72%	GxUSDB 7.03%	EM -2.54%	EM -20.09%	GHY 5.72%
EAFE -4.90%	EM -14.92%	EAFE 1.00%	USAgg 3.54%	EM -14.58%	GHY 5.09%	EMB 5.88%	GHY -7.05%	R2000 -20.44%	USAgg 5.53%

Manage risk while pursuing returns

A diversified portfolio can help cushion losses in poor-performing asset classes while benefiting from gains in others. This is especially important considering how unpredictable asset class performance is from year to year.

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