

Active is: Finding alpha

The importance of diversification

From year to year, there's no telling which asset class will be the best performer – a strong argument for portfolio diversification.

Patchwork ranking of the best to worst performing asset classes from 2010 to 3Q 2020

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD 2020
Small-Cap Growth 29.09%	Long-Term Bonds 29.93%	Small-Cap Value 18.05%	Small-Cap Growth 43.30%	Real Estate 31.78%	Large-Cap Growth 5.67%	Small-Cap Value 31.74%	Large-Cap Growth 30.21%	Cash 1.86%	Large-Cap Growth 36.39%	Large-Cap Growth 24.33%
Real Estate 28.60%	Real Estate 9.24%	Real Estate 17.59%	Small-Cap Value 34.52%	Long-Term Bonds 25.07%	Real Estate 4.23%	High-Yield Bonds 17.49%	International Stocks 25.03%	Convertibles 0.15%	Small-Cap Growth 28.48%	Convertibles 22.18%
Small-Cap Value 24.50%	Intermediate-Term Bonds 7.84%	Large-Cap Value 17.51%	Large-Cap Growth 33.48%	Large-Cap Value 13.45%	Intermediate-Term Bonds 0.55%	Large-Cap Value 17.34%	Small-Cap Growth 22.17%	Intermediate-Term Bonds 0.01%	Large-Cap Value 26.54%	Long-Term Bonds 21.35%
Commodities 16.83%	International Bonds 5.91%	International Stocks 17.32%	Large-Cap Value 32.53%	Large-Cap Growth 13.05%	Cash 0.03%	Commodities 11.77%	Convertibles 13.70%	Large-Cap Growth -1.51%	Real Estate 25.76%	Intermediate-Term Bonds 6.79%
Convertibles 16.77%	High-Yield Bonds 4.38%	High-Yield Bonds 15.58%	Convertibles 24.92%	Convertibles 9.44%	International Stocks -0.81%	Small-Cap Growth 11.32%	Large-Cap Value 13.66%	International Bonds -1.68%	Convertibles 23.15%	International Bonds 5.63%
Large-Cap Growth 16.71%	Large-Cap Growth 2.64%	Large-Cap Growth 15.26%	International Stocks 22.78%	Intermediate-Term Bonds 5.97%	Long-Term Bonds -1.21%	Convertibles 10.43%	International Bonds 9.92%	Long-Term Bonds -1.84%	Small-Cap Value 22.39%	Small-Cap Growth 3.88%
Large-Cap Value 15.51%	Large-Cap Value 0.39%	Convertibles 14.96%	High-Yield Bonds 7.42%	Small-Cap Growth 5.60%	Small-Cap Growth -1.38%	Real Estate 7.24%	Long-Term Bonds 8.53%	High-Yield Bonds -2.26%	International Stocks 22.01%	Cash 0.56%
High-Yield Bonds 15.19%	Cash 0.08%	Small-Cap Growth 14.59%	Real Estate 1.86%	Small-Cap Value 4.22%	Convertibles -2.99%	Large-Cap Growth 7.08%	Small-Cap Value 7.84%	Real Estate -4.84%	Long-Term Bonds 14.83%	High-Yield Bonds -0.30%
Long-Term Bonds 9.38%	Small-Cap Growth -2.91%	Intermediate-Term Bonds 4.21%	Cash 0.05%	High-Yield Bonds 2.50%	Large-Cap Value -3.83%	Intermediate-Term Bonds 2.65%	High-Yield Bonds 7.48%	Large-Cap Value -8.27%	High-Yield Bonds 14.41%	International Stocks -7.09%
International Stocks 7.75%	Convertibles -5.18%	Long-Term Bonds 3.56%	Intermediate-Term Bonds -2.02%	Cash 0.03%	High-Yield Bonds -4.64%	International Bonds 1.86%	Real Estate 4.18%	Small-Cap Growth -9.31%	Intermediate-Term Bonds 8.72%	Large-Cap Value -11.58%
International Bonds 6.78%	Small-Cap Value -5.50%	International Bonds 0.84%	International Bonds -5.08%	International Bonds -2.53%	International Bonds -4.84%	Long-Term Bonds 1.33%	Intermediate-Term Bonds 3.54%	Commodities -11.25%	Commodities 7.69%	Commodities -12.08%
Intermediate-Term Bonds 6.54%	International Stocks -12.14%	Cash 0.07%	Commodities -9.52%	International Stocks -4.90%	Small-Cap Value -7.47%	International Stocks 1.00%	Commodities 1.70%	Small-Cap Value -12.86%	International Bonds 5.23%	Real Estate -16.74%
Cash 0.13%	Commodities -13.32%	Commodities -1.06%	Long-Term Bonds -12.66%	Commodities -17.01%	Commodities -24.66%	Cash 0.27%	Cash 0.84%	International Stocks -13.79%	Cash 2.25%	Small-Cap Value -21.54%

Source: Morningstar Direct. Data as of 9/30/2020.

- Cash represented by the FTSE 3-Month Treasury Bill Index, an index of three-month Treasury bills.
- Commodities represented by the Bloomberg Commodity Total Return Index, which is composed of futures contracts on physical commodities.
- Convertibles represented by the ICE BofA All US Convertible Index, which measures the performance of US dollar-denominated convertible securities not currently in bankruptcy with a total market value greater than \$50 million at issuance.
- High-Yield Bonds represented by the ICE BofA US High Yield Total Return Index, which tracks the performance of below investment grade (BBB), but not in default, US dollar-denominated corporate bonds publicly issued in the domestic market.
- Intermediate-Term Bonds represented by the Bloomberg Barclays US Aggregate Bond Index, which is composed of securities from the Bloomberg Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index. It is representative of the domestic, investment-grade, fixed-rate, taxable bond market.
- International Bonds represented by the J.P. Morgan Global Aggregate Bond Index (ex-US), which is a US dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, excluding the US.
- International Stocks represented by the MSCI EAFE Index. The MSCI Europe, Australasia, Far East Index (EAFE) is an index of over 900 companies, and is a generally accepted benchmark for major overseas markets.
- Large-Cap Growth Stocks represented by the Russell 1000 Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Large-Cap Value Stocks represented by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Long-Term Bonds represented by the Bloomberg Barclays Long-Term Treasury Index, an index of US Treasury obligations with maturities greater than 10 years.
- Real Estate represented by the Wilshire REIT Index, which tracks publicly-traded Real Estate Investment Trusts in the US.
- Small-Cap Growth Stocks represented by the Russell 2000 Growth Index, which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- Small-Cap Value Stocks represented by the Russell 2000 Value Index, which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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A Word About Risks: The 13 asset classes listed in the table involve contrasting risk factors. Cash-equivalent investments have fluctuated the least and have been relatively stable. Bond prices will normally decline as interest rates rise. The impact may be greater with longer-duration bonds. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Equities have tended to be volatile, and unlike bonds do not offer a fixed rate of return. Convertible securities involve the added risk that securities must be converted before it is optimal. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes and international economic and political developments. Foreign markets may be more volatile, less liquid, less transparent and subject to less oversight, and values may fluctuate with currency exchange rates; these risks may be greater in emerging markets. Investments in smaller companies may be more volatile and less liquid than investments in larger companies. Real Estate Investment Trusts (REITs) are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income.