

Stay the course

Even in uncertain economic times, keeping your money in the market may be the right choice in the long run.

Special Report

Wall Street woes and an unpredictable economy sometimes rattle even the most confident investors. Consider the following information on managing your investment strategy during market fluctuations.

Time, not timing, is key

Predicting the market is not like predicting the weather. There are no high-tech gadgets or radar systems to predict the highs and lows that may lie ahead. Without knowing the exact moment to buy or sell, it is easy to miss the market, which could prove costly. Sticking to an investment strategy can keep your returns in line with long-term market performance. However, past performance does not guarantee or predict future returns.

Asset allocation

Asset allocation is a strategy that spreads your investment options around, seeking to take advantage of the potential features that stocks, bonds and other asset classes may offer. Although asset allocation cannot assure a profit or protect against loss, it can help you design a plan to reach your goals.

Asset allocation vs. diversification

Diversification

A risk management technique that mixes a wide variety of investment options within a portfolio. It is designed to help reduce the impact of any one security on overall portfolio performance.

Asset allocation

The process of dividing a portfolio among major asset categories, such as bonds, stocks, or cash. The purpose of asset allocation is to help reduce risk by diversifying the portfolio.

What does history tell us about the market?

Historically, when one asset class falls out of favor with investors, another takes its place. For instance, when international stocks drop, domestic equities may emerge as winners. When stocks fall, bonds may rise. The diagram below shows the top performing asset classes moving in and out of favor. Rarely does the same asset class occupy the top slot two years in a row.

Rebalancing

As an investor, you may wish to review your asset allocation strategy on a regular basis. Any gains experienced in one investment can skew your portfolio to the point where you are more aggressive than originally intended, or vice versa. Periodic portfolio rebalancing helps keep it in check with your objectives.



2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
34.00% Emerging Market Equity	42.12% Real Estate	39.38% Emerging Market Equity	5.24% U.S. Fixed Income	78.51% Emerging Market Equity	26.85% Small Cap Equity	7.84% U.S. Fixed Income	27.73% Real Estate	38.82% Small Cap Equity	15.02% Real Estate
15.35% Real Estate	32.17% Emerging Market Equity	12.44% Developed ex-U.S. Equity	4.39% Global ex-U.S. Fixed	58.21% High Yield	19.63% Real Estate	4.98% High Yield	18.23% Emerging Market Equity	32.39% Large Cap Equity	13.69% Large Cap Equity
14.47% Developed ex-U.S. Equity	25.71% Developed ex-U.S. Equity	11.03% Global ex-U.S. Fixed	2.06% Cash Equivalent	37.13% Real Estate	18.88% Emerging Market Equity	4.36% Global ex-U.S. Fixed	16.41% Developed ex-U.S. Equity	21.02% Developed ex-U.S. Equity	5.97% U.S. Fixed Income
4.91% Large Cap Equity	18.37% Small Cap Equity	6.97% U.S. Fixed Income	-26.16% High Yield	33.67% Developed ex-U.S. Equity	15.12% High Yield	2.11% Large Cap Equity	16.35% Small Cap Equity	7.44% High Yield	4.89% Small Cap Equity
4.55% Small Cap Equity	15.79% Large Cap Equity	5.49% Large Cap Equity	-33.79% Small Cap Equity	27.17% Small Cap Equity	15.06% Large Cap Equity	0.10% Cash Equivalent	16.00% Large Cap Equity	3.67% Real Estate	2.45% High Yield
3.07% Cash Equivalent	11.85% High Yield	5.00% Cash Equivalent	-37.00% Large Cap Equity	26.47% Large Cap Equity	8.95% Developed ex-U.S. Equity	-4.18% Small Cap Equity	15.81% High Yield	0.07% Cash Equivalent	0.03% Cash Equivalent
2.74% High Yield	8.16% Global ex-U.S. Fixed	1.87% High Yield	-43.56% Developed ex-U.S. Equity	7.53% Global ex-U.S. Fixed	6.54% U.S. Fixed Income	-6.46% Real Estate	4.21% U.S. Fixed Income	-2.02% U.S. Fixed Income	-2.19% Emerging Market Equity
2.43% U.S. Fixed Income	4.85% Cash Equivalent	-1.57% Small Cap Equity	-48.21% Real Estate	5.93% U.S. Fixed Income	4.95% Global ex-U.S. Fixed	-12.21% Developed ex-U.S. Equity	4.09% Global ex-U.S. Fixed	-2.60% Emerging Market Equity	-3.09% Global ex-U.S. Fixed
-8.65% Global ex-U.S. Fixed	4.33% U.S. Fixed Income	-7.39% Real Estate	-53.33% Emerging Market Equity	0.21% Cash Equivalent	0.13% Cash Equivalent	-18.42% Emerging Market Equity	0.11% Cash Equivalent	-3.08% Global ex-U.S. Fixed	-4.32% Developed ex-U.S. Equity
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1.38% Large Cap Equity	21.31% Small Cap Equity	37.28% Emerging Market Equity	1.87% Cash Equivalent	31.49% Large Cap Equity	19.96% Small Cap Equity	28.71% Large Cap Equity	1.46% Cash Equivalent	26.29% Large Cap Equity	25.02% Large Cap Equity
0.55% U.S. Fixed Income	17.13% High Yield	24.21% Developed ex-U.S. Equity	0.01% U.S. Fixed Income	25.52% Small Cap Equity	18.40% Large Cap Equity	26.09% Real Estate	-11.19% High Yield	17.94% Developed ex-U.S. Equity	11.54% Small Cap Equity
0.05% Cash Equivalent	11.96% Large Cap Equity	21.83% Large Cap Equity	-2.08% High Yield	22.49% Developed ex-U.S. Equity	18.31% Emerging Market Equity	14.82% Small Cap Equity	-13.01% U.S. Fixed Income	16.93% Small Cap Equity	8.19% High Yield
-0.79% Real Estate	11.19% Emerging Market Equity	14.65% Small Cap Equity	-2.15% Global ex-U.S. Fixed	21.91% Real Estate	10.11% Global ex-U.S. Fixed	12.62% Developed ex-U.S. Equity	-14.29% Developed ex-U.S. Equity	13.44% High Yield	7.50% Emerging Market Equity
-3.04% Developed ex-U.S. Equity	4.06% Real Estate	10.51% Global ex-U.S. Fixed	-4.38% Large Cap Equity	18.44% Emerging Market Equity	7.59% Developed ex-U.S. Equity	5.28% High Yield	-18.11% Large Cap Equity	9.83% Emerging Market Equity	5.25% Cash Equivalent
-4.41% Small Cap Equity	2.75% Developed ex-U.S. Equity	10.36% Real Estate	-5.63% Real Estate	14.32% High Yield	7.51% U.S. Fixed Income	0.05% Cash Equivalent	-18.70% Global ex-U.S. Fixed	9.67% Real Estate	4.70% Developed ex-U.S. Equity
-4.47% High Yield	2.65% U.S. Fixed Income	7.50% High Yield	-11.01% Small Cap Equity	8.72% U.S. Fixed Income	7.11% High Yield	-1.54% U.S. Fixed Income	-20.09% Emerging Market Equity	5.72% Global ex-U.S. Fixed	1.25% U.S. Fixed Income
-6.02% Global ex-U.S. Fixed	1.49% Global ex-U.S. Fixed	3.54% U.S. Fixed Income	-14.09% Developed ex-U.S. Equity	5.09% Global ex-U.S. Fixed	0.67% Cash Equivalent	-2.54% Emerging Market Equity	-20.44% Small Cap Equity	5.53% U.S. Fixed Income	0.94% Real Estate
-14.92% Emerging Market Equity	0.33% Cash Equivalent	0.86% Cash Equivalent	14.57% Emerging Market Equity	2.28% Cash Equivalent	-9.04% Real Estate	-7.05% Global ex-U.S. Fixed	-25.10% Real Estate	5.01% Cash Equivalent	-4.22% Global ex-U.S. Fixed

The Callan Periodic Table of Investment Returns conveys the strong case for diversification across asset classes (stocks vs. bonds), capitalizations (large vs. small), and equity markets (U.S. vs. global ex-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years

The impact of trying to outguess the market

Investors sometimes try to outguess the market by choosing to invest in the previous year's best performers. The chart on page 2 demonstrates that trying to pick a winner and outguessing the market rarely pays off.

General risk(s) to investments

Domestic Equity: Exposure to financial and market risks that accompany investments in equities. Markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Small cap stocks may be more volatile and less liquid than stocks of larger more established companies.

Fixed Income: Exposure to financial, market, prepayment, credit and interest rate risks. The value of an investment in a fund is not guaranteed and will fluctuate. Higher-yielding bonds are subject to greater volatility and credit risks. A fund may invest in securities guaranteed by the U.S. government for timely payment of interest and principal, but the fund's shares themselves are not insured or guaranteed. Bonds have fixed principal and return if held to maturity, but may fluctuate in the interim.

Generally, when interest rates rise, bond prices fall. Bonds with longer maturities tend to be more sensitive to changes in interest rates.

International: In addition to the general risks of investing in equities and fixed income securities, investing in foreign securities poses special risks, including currency fluctuation, economic and political risks not found in investments that are solely domestic. Risks of foreign investing are generally intensified for investments in emerging markets.

REITs: Real Estate Investment Trusts may be sensitive to factors such as changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and credit-worthiness of the issuer. REITs may also be affected by tax and regulatory requirements.



The Callan Periodic Table of Investment Returns 2005 – 2024

Callan's Periodic Table of Investment Returns depicts annual returns for 8 asset classes, ranked from best to worst performance for each calendar year.

The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry standard market indices that we use as proxies for each asset class in the text below.

- **Large Cap Equity (S&P 500)** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **Small Cap Equity (Russell 2000)** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.
- **Developed ex-U.S. Equity (MSCI World ex USA)** is an index that is designed to measure the performance of large and mid cap equities in developed markets in Europe, the Middle East, the Pacific region, and Canada.
- **Emerging Market Equity (MSCI Emerging Markets)** is an index that is designed to measure the performance of equity markets in 24 emerging countries around the world.

- **U.S. Fixed Income (Bloomberg US Aggregate Bond Index)** includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.
- **High Yield (Bloomberg High Yield Bond Index)** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.
- **Global ex-U.S. Fixed Income (Bloomberg Global Aggregate ex US Bond Index)** is an unmanaged index that is comprised of several other Bloomberg indices that measure the fixed income performance of regions around the world, excluding the U.S.
- **Real Estate (FTSE EPRA Nareit Developed REIT Index)** is designed to measure the stock performance of companies engaged in specific real estate activities in the North American, European, and Asian real estate markets.
- **Cash Equivalent (90-day T-bill)** is a short-term debt obligation backed by the Treasury Department of the U.S. government.

Additional information

While each of these investment strategies can be useful, they cannot assure nor guarantee better performance and they can't protect against loss in declining markets.

Monitoring the market during fluctuations and being aware of risk management strategies can help you choose whether to stay the course as you work toward your retirement objectives.

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