

Diversification is a key to success

All asset classes are not created equal. While some have dominated in years past, no one single asset class has consistently outperformed over extended periods of time. This chart illustrates two key concepts: one, that different assets take turns at the top of the chart; and two, that some assets have been more volatile, landing at the top of the chart in some years and near the bottom in others.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Large-Cap Stocks 33.4%	Large-Cap Stocks 28.6%	Emerging-Market Stocks 66.4%	Midcap Stocks 17.2%	Investment-Grade Bonds 8.4%	Investment-Grade Bonds 10.3%	Emerging-Market Stocks 56.3%	Emerging-Market Stocks 25.9%	Emerging-Market Stocks 34.5%	Emerging-Market Stocks 32.6%	Emerging-Market Stocks 39.8%	Investment-Grade Bonds 5.2%	Emerging-Market Stocks 79.0%	Small-Cap Stocks 26.3%	Municipal Bonds 10.7%	Emerging-Market Stocks 18.6%	Small-Cap Stocks 41.3%	Large-Cap Stocks 13.7%	Municipal Bonds 3.3%	Small-Cap Stocks 26.6%
Midcap Stocks 31.9%	Developed-Market Stocks 20.3%	Developed-Market Stocks 27.3%	Small-Cap Stocks 11.8%	Small-Cap Stocks 6.5%	Municipal Bonds 9.6%	Developed-Market Stocks 39.2%	Small-Cap Stocks 22.6%	Developed-Market Stocks 14.0%	Developed-Market Stocks 26.9%	Developed-Market Stocks 11.6%	Cash 2.2%	High-Yield Bonds 58.2%	Midcap Stocks 25.7%	Investment-Grade Bonds 7.9%	Developed-Market Stocks 17.9%	Midcap Stocks 33.4%	50/50 Mix 9.8%	Large-Cap Stocks 1.4%	Midcap Stocks 20.7%
Small-Cap Stocks 25.6%	Midcap Stocks 18.8%	Large-Cap Stocks 21.0%	Municipal Bonds 11.7%	High-Yield Bonds 5.3%	Cash 1.8%	Small-Cap Stocks 38.8%	Developed-Market Stocks 20.7%	Midcap Stocks 12.3%	Large-Cap Stocks 15.8%	Midcap Stocks 7.6%	Municipal Bonds -2.5%	Midcap Stocks 35.8%	Emerging-Market Stocks 19.2%	50/50 Mix 5.0%	Small-Cap Stocks 16.3%	Large-Cap Stocks 32.4%	Midcap Stocks 9.8%	50/50 Mix 1.0%	High-Yield Bonds 17.1%
50/50 Mix 21.5%	50/50 Mix 18.6%	Midcap Stocks 14.3%	Investment-Grade Bonds 11.6%	Municipal Bonds 5.1%	High-Yield Bonds -1.4%	Midcap Stocks 35.3%	Midcap Stocks 16.2%	Small-Cap Stocks 7.7%	Small-Cap Stocks 15.1%	Investment-Grade Bonds 7.0%	50/50 Mix -15.9%	Developed-Market Stocks 32.5%	High-Yield Bonds 15.1%	High-Yield Bonds 5.0%	Midcap Stocks 16.3%	Developed-Market Stocks 23.3%	Municipal Bonds 9.1%	Investment-Grade Bonds 0.5%	Large-Cap Stocks 12.0%
High-Yield Bonds 12.8%	Investment-Grade Bonds 8.7%	Small-Cap Stocks 12.4%	Cash 6.2%	Cash 4.4%	50/50 Mix -5.9%	High-Yield Bonds 29.0%	High-Yield Bonds 11.1%	Large-Cap Stocks 4.9%	High-Yield Bonds 11.9%	50/50 Mix 6.2%	High-Yield Bonds -26.2%	Large-Cap Stocks 26.4%	Large-Cap Stocks 15.1%	Large-Cap Stocks 2.1%	Large-Cap Stocks 16.0%	50/50 Mix 15.2%	Investment-Grade Bonds 6.0%	Cash 0.1%	Emerging-Market Stocks 11.6%
Investment-Grade Bonds 9.7%	Municipal Bonds 6.5%	50/50 Mix 10.1%	50/50 Mix 1.3%	Midcap Stocks -0.8%	Emerging-Market Stocks -6.0%	Large-Cap Stocks 28.7%	Large-Cap Stocks 10.9%	50/50 Mix 3.7%	50/50 Mix 10.1%	Large-Cap Stocks 5.5%	Small-Cap Stocks -31.1%	Small-Cap Stocks 25.6%	50/50 Mix 10.8%	Small-Cap Stocks 1.0%	High-Yield Bonds 15.8%	High-Yield Bonds 7.4%	Small-Cap Stocks 5.8%	Developed-Market Stocks -0.4%	50/50 Mix 7.3%
Municipal Bonds 9.2%	Cash 5.3%	Cash 4.9%	High-Yield Bonds -5.9%	50/50 Mix -1.7%	Small-Cap Stocks -14.6%	50/50 Mix 16.4%	50/50 Mix 7.6%	Municipal Bonds 3.5%	Midcap Stocks 10.0%	Cash 5.1%	Midcap Stocks -36.6%	50/50 Mix 16.2%	Developed-Market Stocks 8.2%	Cash 0.1%	50/50 Mix 10.1%	Cash 0.1%	High-Yield Bonds 2.5%	Small-Cap Stocks -2.0%	Investment-Grade Bonds 2.6%
Cash 5.5%	High-Yield Bonds 1.9%	High-Yield Bonds 2.4%	Large-Cap Stocks -9.1%	Emerging-Market Stocks -2.4%	Midcap Stocks -14.7%	Municipal Bonds 5.3%	Municipal Bonds 4.5%	Cash 3.1%	Cash 4.9%	Municipal Bonds 3.4%	Large-Cap Stocks -37.0%	Municipal Bonds 12.9%	Investment-Grade Bonds 6.6%	Midcap Stocks -2.0%	Municipal Bonds 6.8%	Investment-Grade Bonds -2.0%	Cash 0.1%	Midcap Stocks -2.2%	Developed-Market Stocks 1.5%
Developed-Market Stocks 2.1%	Small-Cap Stocks -1.3%	Investment-Grade Bonds -0.8%	Developed-Market Stocks -14.0%	Large-Cap Stocks -11.9%	Developed-Market Stocks -15.7%	Investment-Grade Bonds 4.1%	Investment-Grade Bonds 4.3%	High-Yield Bonds 2.7%	Municipal Bonds 4.9%	High-Yield Bonds 1.9%	Developed-Market Stocks -43.1%	Investment-Grade Bonds 5.9%	Municipal Bonds 2.4%	Developed-Market Stocks -11.7%	Investment-Grade Bonds 4.2%	Emerging-Market Stocks -2.3%	Emerging-Market Stocks -1.8%	High-Yield Bonds -4.5%	Cash 0.3%
Emerging-Market Stocks -11.6%	Emerging-Market Stocks -25.3%	Municipal Bonds -2.1%	Emerging-Market Stocks -30.6%	Developed-Market Stocks -21.2%	Large-Cap Stocks -22.1%	Cash 1.1%	Cash 1.3%	Investment-Grade Bonds 2.4%	Investment-Grade Bonds 4.3%	Small-Cap Stocks -0.3%	Emerging-Market Stocks -53.2%	Cash 0.2%	Cash 0.2%	Emerging-Market Stocks -18.2%	Cash 0.1%	Municipal Bonds -2.6%	Developed-Market Stocks -4.5%	Emerging-Market Stocks -14.6%	Municipal Bonds 0.2%



Sources: Standard & Poor's, MSCI, Bloomberg Barclays Indices, Federal Reserve. Large-cap stocks are represented by the S&P 500 Index. Midcap stocks are represented by the S&P MidCap 400 Index. Small-cap stocks are represented by the S&P SmallCap 600 Index. Developed-market stocks are represented by the MSCI Europe, Australasia, and Far East (EAFE) Index. Emerging-market stocks are represented by the MSCI Emerging Markets Index. Investment-grade bonds are represented by the Bloomberg Barclays U.S. Aggregate Index. High-yield bonds are represented by the Bloomberg Barclays High Yield Index. Municipal bonds are represented by the Bloomberg Barclays Municipal Bond Index. Cash is represented by a composite of yields on 3-month Treasury bills and the Bloomberg Barclays 3-Month Treasury Bellwethers Index. The 50/50 mix is represented by a portfolio composed of 50% S&P 500 and 50% Bloomberg Barclays U.S. Aggregate, rebalanced annually.

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While some asset classes performed well over the years and others did not, the performance of a diversified portfolio remained more consistent over time, balancing out the extreme highs and lows of the other asset classes.

Asset Class	Index Name	Description	Risk
Large-Cap Stocks	S&P 500	<i>The S&P 500 Index is a capitalization-weighted index that measures the performance of 500 large-cap U.S. stocks chosen for market size, liquidity, sector representation, and other factors.</i>	Prices of equity securities change in response to many factors, including past and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions, and market liquidity.
Midcap Stocks	S&P MidCap 400	<i>The S&P MidCap 400 Index is a capitalization-weighted index that measures the performance of 400 mid-sized U.S. stocks chosen for market size, liquidity, sector representation, and other factors.</i>	Prices of equity securities change in response to many factors, including past and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions, and market liquidity. Securities of smaller companies may be more volatile than those of larger companies.
Small-Cap Stocks	S&P SmallCap 600	<i>The S&P SmallCap 600 Index is a capitalization-weighted index that measures the performance of 600 smaller-sized U.S. stocks chosen for market size, liquidity, sector representation, and other factors.</i>	Prices of equity securities change in response to many factors, including past and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions, and market liquidity. Securities of smaller companies may be more volatile than those of larger companies.
Developed-Market Stocks	MSCI EAFE Index	<i>The MSCI Europe, Australasia, Far East Index is a capitalization-weighted index that measures the performance of stocks in developed markets in three major world regions outside the U.S.</i>	Prices of equity securities change in response to many factors, including past and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions, and market liquidity. Foreign investments involve greater risk than U.S. investments, including political changes, currency fluctuations, potentially inadequate legal protection, lack of market information, and low market liquidity.
Emerging-Market Stocks	MSCI Emerging Markets Index	<i>The MSCI Emerging Markets Index is a capitalization-weighted index that measures the performance of stocks in emerging markets around the world.</i>	Prices of equity securities change in response to many factors, including past and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions, and market liquidity. Investing in emerging markets entails additional risk, including high inflation, unstable currency values, political upheaval, potentially little to no legal protection, and unstable economies. Transaction costs are often higher and there may be delays in settling transactions.
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	<i>The Bloomberg Barclays U.S. Aggregate Bond Index measures the performance of the broad U.S. bond market and is composed of fixed-income securities rated investment grade (BBB- or higher or its equivalent), including U.S. government, corporate, and sovereign debt, and mortgage-backed and asset-backed securities.</i>	Bond prices change in response to many factors, including changes in market interest rate levels, inflation, changes to the credit worthiness of the issuer, liquidity, and investor perception. Investments in bonds are not guaranteed and may lose value at any time.
High-Yield Bonds	Bloomberg Barclays High Yield Bond Index	<i>The Bloomberg Barclays High-Yield Bond Index measures the performance of U.S.-dollar-denominated fixed-income securities, issued by U.S. and non-U.S. corporations, that are rated below investment grade (equivalent to BB+ or lower).</i>	Bond prices change in response to many factors, including changes in market interest rate levels, inflation, changes to the credit worthiness of the issuer, liquidity, and investor perception. Investments in bonds are not guaranteed and may lose value at any time. Lower-quality debt securities involve greater risk of default or price changes due to changes in the credit quality of the issuer.
Cash	Bloomberg Barclays 3-Month Treasury Bellwethers Index	<i>The Bloomberg Barclays 3-Month Treasury Bellwethers Index measures the performance of the on-the-run (most recently auctioned) U.S. Treasury 3-month bill.</i>	An investment in a money market fund is not insured or guaranteed by the U.S. government or any bank, and there is no assurance that the fund will maintain a stable net asset value or share price.
Municipal Bonds	Bloomberg Barclays Municipal Bond Index	<i>The Bloomberg Barclays Municipal Bond Index measures the performance of tax-exempt bonds issued by state and local governments and agencies in the U.S., rated investment grade (at least BBB- or equivalent), and with one year or more remaining until final maturity.</i>	Bond prices change in response to many factors, including changes in market interest rate levels, inflation, changes to the credit worthiness of the issuer, liquidity, and investor perception. Investments in bonds are not guaranteed and may lose value at any time. Interest from municipal bonds is not generally subject to federal taxes. However, investors should consider their particular tax situation before investing.
50/50 Mix		<i>The 50/50 mix is represented by a portfolio composed of 50% S&P 500 and 50% Bloomberg Barclays U.S. Aggregate, rebalanced annually.</i>	Bond prices change in response to many factors, including changes in market interest rate levels, inflation, changes to the credit worthiness of the issuer, liquidity, and investor perception. Investments in bonds are not guaranteed and may lose value at any time. Interest from municipal bonds is not generally subject to federal taxes. However, investors should consider their particular tax situation before investing. Prices of equity securities change in response to many factors, including past and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions, and market liquidity.

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The S&P 500 is an unmanaged market capitalization-weighted index of 500 widely held U.S. stocks recognized by investors to be representative of the stock market in general. It is provided to represent the investment environment existing for the time period shown. The returns shown do not reflect the actual cost of investing in the instruments that comprise the index.

By diversifying, you may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing too much potential gain. However, there is always a risk of loss when you invest in securities. The investment return and principal value of an investment may fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Past performance does not guarantee future results.

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