WealthInsights

The Importance of Diversification

·ROEHL & YI·
INVESTMENT ADVISORS, LLC

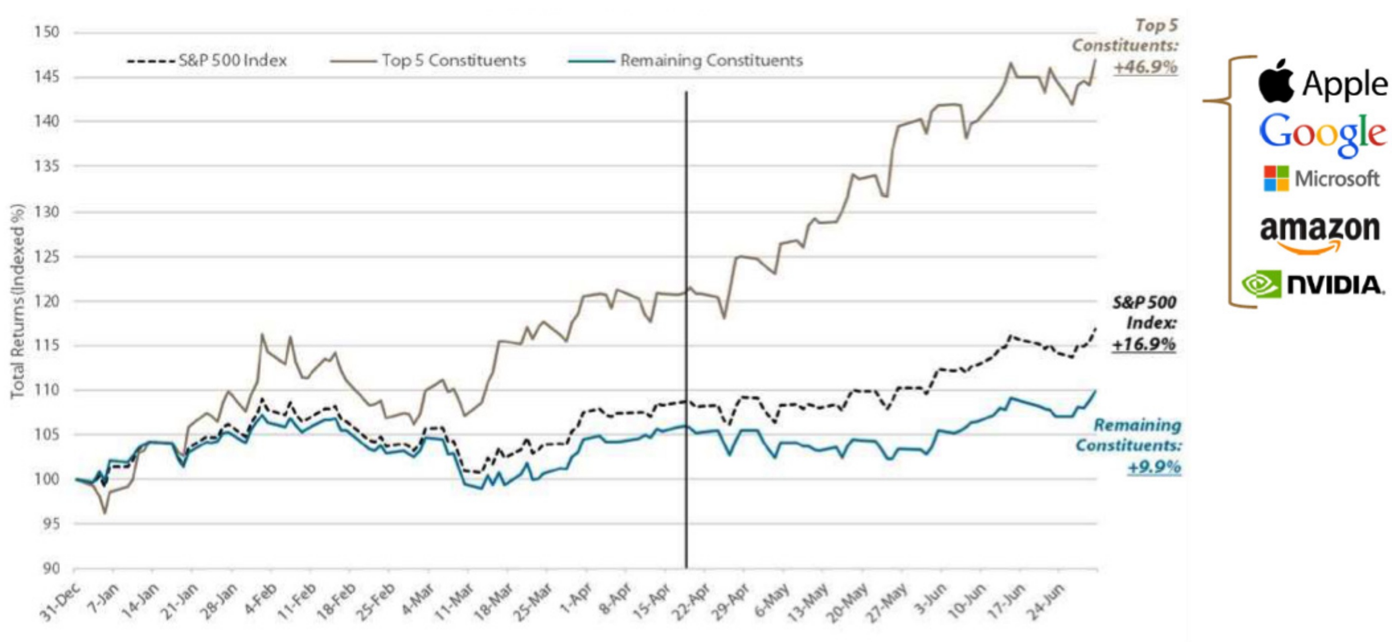
For A Personal Wealth of Reasons

The Lure of Narrow Markets

In the first six months of 2023, NVIDIA, a leader in artificial intelligence computing, had a stock price that was up over 100%[1] and money markets were yielding over 5%.[2] In addition, the S&P 500 is up almost 20.8% through the end of November.[3]

Large technology giants significantly outperformed other sectors, creating what's known as a narrow market. A narrow market is a scenario in which market performance is driven by a small subset of companies while most others lag.

YTD 6/30/23 Total Returns



Source: Dana Investment Advisors, FactSet Research Systems

During narrow markets such as this, it is easy to wonder, "Why would I invest in anything but money markets, NVIDIA, or large tech stocks?" The appeal of straying from diversification principles is enticing and can cause investors to make emotional decisions. However, it is at these moments that Roehl & Yi believes it is essential to remain focused on the long term and maintain a portfolio that is well allocated across asset classes.

As the *S&P 500 vs. Diversified Portfolio* chart below illustrates, diversification can be painful, though it can produce consistent results over time.

A Diversified Portfolio Can Work Even Though it Never Feels Good

Last 20+ years

25% U.S. large stocks, 19% U.S. mid cap stocks, 7% international stocks, 5% U.S. small cap stocks, 4% emerging market stocks, 25% U.S. bonds, 15% high yield bonds

Years	S&P 500	Diversified Portfolio	
2000–2002*	-40.1%	-15.7%	"I lost money"
2003–2007	82.9%	87.1%	"Diversification worked"
2008	-37.0%	-26.6%	"I lost money"
2009–2019	351.0%	219.7%	"I didn't make as much"
Q1 2020[†]	-30.4%	-23.1%	"I lost money"
Q2 2020-2021[‡]	119.0%	66.6%	"I didn't make as much"
2022	-18.1%	-15.5%	"I lost money"
Total Return	**288.6%**	**301.6%**	**"Diversification can work even when it feels like its losing"**
Gr $100K	**$388,610**	**$401,550**	

Source: Morningstar as of 12/31/22. *Performance is from 9/1/00 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. ‡Performance is from 3/24/20 to 12/31/21. Diversified Portfolio is represented by 25% S&P 500 Index, 19% Russell Mid Cap Index, 7% MSCI EAFE Index, 5% Russell 2000 Index, 4% FTSE Emerging Stock Index, 25% Bloomberg US Aggregate Bond Index, 15% Bloomberg US Corporate High Yield Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Source: BlackRock Student of the Market, January 2023

Four Reasons Diversification May Improve Outcomes

1. Crystal Balls Are a Myth

The reality is that no level of brilliance, research, or conviction can inform exactly what is going to happen next. This is a lesson that, as humans, we are constantly re-learning. In early January 2020, we were not predicting that a pandemic was going to disrupt the world, halting economies across the globe. While there are many other less dramatic examples, such as speculation about how the Federal Reserve will manage interest rates, or how congress will handle our national debt, none of us knows exactly what decisions will be made in the next six months. The list of unknowns is infinite, and diversification is an acceptance of this fact that offers both a way to protect on the downside and benefit on the upside.

2. Diversification Lowers Portfolio Volatility Over Time

When a particular stock or asset class is going up, it is easy to forget that what goes up can also come down. While the returns of a portfolio that was invested 100% in NVIDIA were appealing in the first half of 2023, few would have been able to stomach the volatility of having their portfolio value go down 50%, which is what happened to NVIDIA stock in 2022.[4] In addition, when a portfolio goes down 50%, it must come back 100% to reach its former value.

As depicted in the *15-Year Investment Performance* chart below, diversification allows investors to lower volatility relative to returns, while enjoying reasonable returns over time without the pressure of selecting a single investment that will act as their golden ticket.

Asset Class Returns

2008 - 2022																	
Ann.	Vol.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD
Large Cap 8.8%	REITs 23.4%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 20.8%
Small Cap 7.2%	Small Cap 23.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 12.8%
REITs 6.6%	EM Equity 23.0%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	High Yield 9.6%
Asset Alloc. 6.1%	Comdty. 20.2%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 8.8%
High Yield 5.4%	DM Equity 20.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	EM Equity 6.1%
Fixed Income 2.7%	Large Cap 17.7%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	Cash 4.6%
DM Equity 2.3%	High Yield 13.0%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	Small Cap 4.2%
EM Equity 1.0%	Asset Alloc. 12.4%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	REITs 2.3%
Cash 0.6%	Fixed Income 4.2%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Fixed Income 1.6%
Comdty. -2.6%	Cash 0.4%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -5.4%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2007 to 12/31/2022. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of November 30, 2023.

3. A Well-Diversified Portfolio Allows You to Participate Without Attempting to Pick Top Performers at a Moment in Time

As demonstrated by the *15-Year Investment Performance* chart, by allowing for participation through various market sectors, the diversified portfolio produces compelling returns relative to the volatility level of the portfolio over time.

4. Diversification is Proven to Work

Diversification is the only “free lunch” in investing and is an important means to reduce overall portfolio volatility and improve returns over time. A well-diversified portfolio across asset classes provides a “smoother ride.” Downside protection and loss aversion are key considerations when selecting investments and building portfolios.[5]

In Closing

There are countless expressions regarding the importance of diversification in our lexicon, such as “don’t put all your eggs in one basket.” Unsurprisingly, the same is true of your investment portfolio. Limiting volatility is essential to meeting long-term financial goals. Diversification works and our philosophy is to construct all-weather portfolios, robust enough to navigate varying market environments so that you meet your financial goals.

About Roehl & Yi

Together, co-founders Tom Roehl and Jayman Yi, along with their qualified team of experienced personal wealth advisors, have more than 100 years of combined financial planning and investment experience. Their knowledge spans retirement plan management and consulting, complex financial analysis, estate planning, business formation, trading, and asset allocation best practices.

Contact Roehl & Yi Investment Advisors to assist you.

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[1]Morningstar.com, https://www.morningstar.com/stocks/xnas/nvda/trailing-returns
[2]Schwab, Pershing, PIMCO, Vanguard as of 9/7/2023
[3]Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management
[4]Morningstar Direct
[5]Roehl & Yi Investment Principles