RetirementInsider

The Importance of Diversification

ROEHL & YI
INVESTMENT ADVISORS, LLC

For A Personal Wealth of Reasons

It comes as no surprise that losing money in the stock market can be painful, especially when you feel that you have no control over market volatility.

Many investors try to avoid losses by shifting funds toward the hottest-trending stocks that seem to be performing well or that are getting media attention, but this is not always the best approach to protect your portfolio. In fact, one of the most well-known ways to cushion yourself against market volatility is to diversify your investments among many asset classes.

The Importance of Diversification

It is impossible to tell exactly when the markets will change, but if you divide your overall investments between a variety of stocks, bonds, and alternatives, you may fare better at guarding against market shocks and fluctuations.

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. 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

	2009-2023																		
	Ann.	Vol.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
HIGH	Large Cap 14.0%	Small Cap 21.9%	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 26.3%
	Small Cap 11.3%	REITs 21.2%	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 18.9%
	REITs 10.9%	EM Equity 20.3%	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%	Small Cap 16.9%
	High Yield 8.6%	DM Equity 18.4%	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. 14.1%
ANNUAL RETURNS	Asset Alloc. 8.1%	Comdty. 16.6%	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%	High Yield 14.0%
	DM Equity 7.4%	Large Cap 16.1%	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%	REITs 11.4%
	EM Equity 6.9%	High Yield 11.5%	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%	EM Equity 10.3%
	Fixed Income 2.7%	Asset Alloc. 11.5%	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%	Fixed Income 5.5%
	Cash 0.8%	Fixed Income 4.5%	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%	Cash 5.1%
LOW	Comdty. -0.2%	Cash 0.7%	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. -7.9%

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 December 31, 2023.

- Large-Cap Growth Stocks
- Small-Cap Growth Stocks
- REITs (Real Estate Investment Trusts)
- Asset Allocation*
- High-Yield Bonds
- Fixed Income (Core Bonds)
- DM Equity (International Developed Stocks)
- EM Equity (Emerging Markets Stocks)
- Cash
- Commodities

*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.

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

The *15-Year Investment Performance* chart above shows that 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.[1]

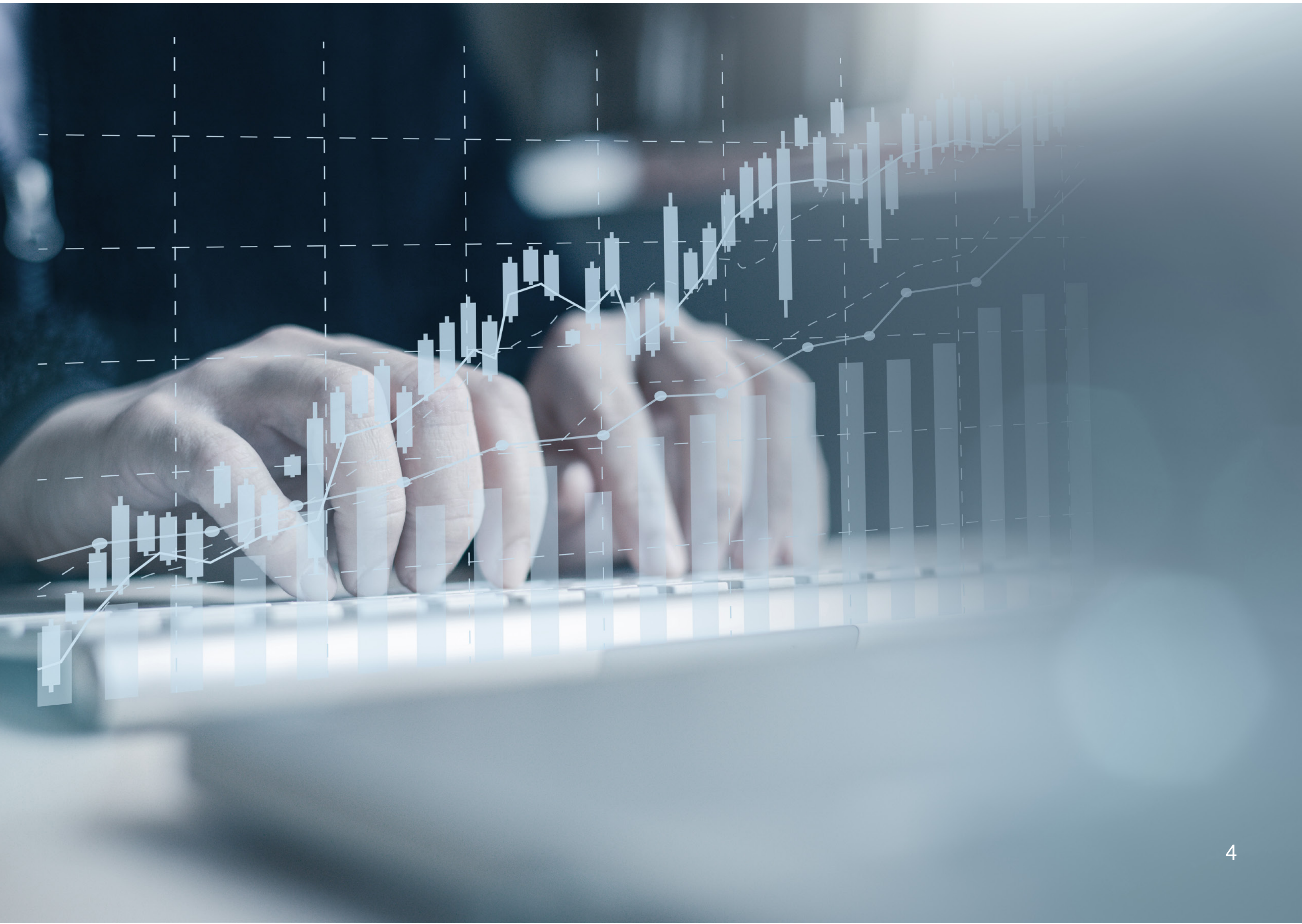
In Closing

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.



Contact a Roehl & Yi Advisor

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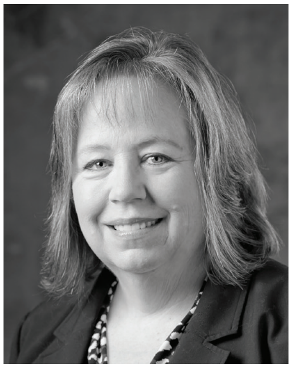

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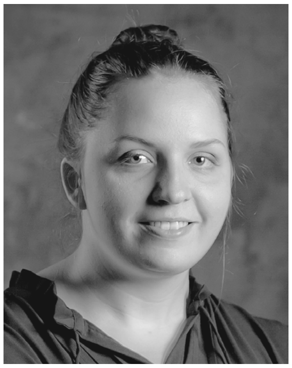

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[1]Roehl & Yi Investment Principles