STIFEL

INVESTING

Which Asset Class Is Best?

Just as market conditions and economic environments change, the "best" asset class will change in any given year. In order for an investor's overall portfolio to perform at its fullest potential over the long term, it is important to diversify the investments across the various asset classes. By having exposure to various asset classes, an investor may be in a position to capture each year's best return. This could possibly help minimize the negative impact of investments that did not perform as well, therefore reducing the overall volatility within the portfolio. Of course, diversification does not ensure a profit or protect against loss.

Annual Total Returns of Key Asset Classes 2008 - 2024

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Best	Bonds 5.24%	Small Value Stocks 46.89%	Small Growth Stocks 28.98%	Bonds 7.84%	Small Value Stocks 20.09%	Small Growth Stocks 41.48%	Large Growth Stocks 13.99%	Large Growth Stocks 4.81%	Small Value Stocks 31.33%	Large Growth Stocks 27.42%	Bonds 0.01%	Large Growth Stocks 34.76%	Large Growth Stocks 35.83%	Small Value Stocks 31.49%	Large Value Stocks -2.51%	Large Growth Stocks 36.12%	Large Growth Stocks 28.88%
	Diversified Portfolio -34.22%	Mid Value Stocks 44.49%	Small Stocks 28.58%	Large Growth Stocks 2.27%	Mid Value Stocks 18.79%	Small Stocks 41.11%	Large Stocks 13.69%	Large Stocks 1.38%	Mid Value Stocks 22.85%	Foreign Stocks 25.62%	Large Growth Stocks -1.12%	Mid Growth Stocks 34.34%	Small Growth Stocks 32.92%	Mid Value Stocks 29.66%	Mid Value Stocks -7.08%	Large Stocks 26.29%	Large Stocks 25.02%
	Small Value Stocks -34.92%	Small Stocks 38.68%	Small Value Stocks 28.03%	Large Stocks 2.11%	Small Stocks 17.99%	Small Value Stocks 40.52%	Mid Value Stocks 13.58%	Bonds 0.55%	Small Stocks 21.54%	Mid Growth Stocks 22.56%	Large Stocks -4.38%	Large Stocks 31.49%	Mid Growth Stocks 32.06%	Large Stocks 28.71%	Small Value Stocks -11.70%	Mid Growth Stocks 21.18%	Mid Growth Stocks 15.76%
	Small Stocks -36.72%	Mid Growth Stocks 38.34%	Mid Growth Stocks 27.43%	Large Value Stocks 0.86%	Foreign Stocks 17.90%	Mid Growth Stocks 36.21%	Mid Growth Stocks 12.55%	Mid Growth Stocks -0.01%	Large Value Stocks 17.68%	Large Stocks 21.83%	Mid Growth Stocks -6.00%	Mid Value Stocks 27.62%	Small Stocks 22.47%	Large Value Stocks 28.55%	Bonds -13.01%	Foreign Stocks 18.85%	Small Growth Stocks 14.27%
	Large Stocks -37.00%	Foreign Stocks 32.46%	Mid Value Stocks 22.59%	Mid Value Stocks -0.47%	Large Value Stocks 16.66%	Mid Value Stocks 35.62%	Large Value Stocks 12.31%	Foreign Stocks -0.39%	Diversified Portfolio 13.69%	Small Growth Stocks 19.21%	Small Growth Stocks -6.19%	Small Growth Stocks 27.28%	Large Stocks 18.40%	Large Growth Stocks 26.08%	Foreign Stocks -14.01%	Diversified Portfolio 18.03%	Diversified Portfolio 13.71%
	Large Value Stocks -37.13%	Diversified Portfolio 32.32%	Diversified Portfolio 19.78%	Small Growth Stocks -1.36%	Small Growth Stocks 16.27%	Large Growth Stocks 33.59%	Diversified Portfolio 8.44%	Small Growth Stocks -1.30%	Small Growth Stocks 13.64%	Diversified Portfolio 17.49%	Diversified Portfolio -8.01%	Large Value Stocks 27.28%	Diversified Portfolio 17.12%	Diversified Portfolio 20.21%	Diversified Portfolio -16.48%	Small Value Stocks 17.93%	Large Value Stocks 13.63%
	Large Growth Stocks -37.16%	Small Growth Stocks 32.13%	Large Growth Stocks 16.98%	Diversified Portfolio -1.36%	Large Growth Stocks 16.09%	Large Value Stocks 32.60%	Small Value Stocks 6.81%	Diversified Portfolio -1.47%	Large Stocks 11.96%	Large Value Stocks 16.28%	Large Value Stocks -9.49%	Diversified Portfolio 25.94%	Small Value Stocks 9.71%	Mid Growth Stocks 18.73%	Large Stocks -18.11%	Small Stocks 17.09%	Mid Value Stocks 12.99%
	Small Growth Stocks -38.10%	Large Growth Stocks 31.72%	Large Value Stocks 15.41%	Mid Growth Stocks -1.49%	Large Stocks 16.00%	Large Stocks 32.39%	Bonds 5.97%	Large Value Stocks -2.73%	Mid Growth Stocks 7.27%	Mid Value Stocks 15.78%	Small Stocks -10.91%	Small Stocks 24.29%	Foreign Stocks 8.28%	Small Stocks 18.58%	Small Stocks -20.08%	Small Growth Stocks 16.50%	Small Stocks 11.95%
	Mid Value Stocks -40.73%	Large Stocks 26.46%	Large Stocks 15.06%	Small Stocks -4.22%	Diversified Portfolio 15.94%	Diversified Portfolio 31.48%	Small Stocks 5.50%	Small Stocks -4.18%	Large Growth Stocks 6.43%	Small Stocks 14.10%	Mid Value Stocks -12.35%	Foreign Stocks 22.66%	Bonds 7.51%	Foreign Stocks 11.78%	Mid Growth Stocks -24.01%	Mid Value Stocks 11.41%	Small Value Stocks 9.01%
	Mid Growth Stocks -42.62%	Large Value Stocks 26.12%	Foreign Stocks 8.21%	Small Value Stocks -7.40%	Mid Growth Stocks 15.43%	Foreign Stocks 23.29%	Small Growth Stocks 4.44%	Mid Value Stocks -5.02%	Bonds 2.65%	Small Value Stocks 8.54%	Foreign Stocks -13.36%	Small Value Stocks 20.92%	Mid Value Stocks 4.20%	Small Growth Stocks 10.04%	Small Growth Stocks -26.79%	Large Value Stocks 9.37%	Foreign Stocks 4.35%
Worst	Foreign Stocks -43.06%	Bonds 5.93%	Bonds 6.54%	Foreign Stocks -11.73%	Bonds 4.21%	Bonds -2.02%	Foreign Stocks -4.48%	Small Value Stocks -7.79%	Foreign Stocks 1.51%	Bonds 3.54%	Small Value Stocks -16.34%	Bonds 8.72%	Large Value Stocks -0.16%	Bonds -1.54%	Large Growth Stocks -27.47%	Bonds 5.53%	Bonds 1.25%

LARGE STOCKS are represented by the S&P 500 Index, comprised of 500 widely held stocks generally considered representative of the U.S. stock market. LARGE GROWTH STOCKS are represented by the Bloomberg U.S. 1000 Growth Index, comprised of those companies in the Bloomberg U.S. 1000 Index with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth. LARGE VALUE STOCKS are represented by the Bloomberg U.S. 1000 Value Index, comprised of those companies in the Bloomberg U.S. 1000 Index with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth. MID GROWTH STOCKS are represented by the Bloomberg U.S. Mid Cap Growth Index, which consists of the lower 800 in capitalization of the Bloomberg U.S. 1000 Index with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth. MID VALUE STOCKS are represented by the Bloomberg U.S. Mid Cap Value Index, which consists of the lower 800 in capitalization of the Bloomberg U.S. 1000 Index with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth. SMALL STOCKS are represented by the Bloomberg U.S. 2000 Index, comprised of thos companies which consists of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index. SMALL GROWTH STOCKS are represented by the Bloomberg U.S. 2000 Growth Index, comprised of those companies in the Bloomberg U.S. 2000 Index with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth. SMALL VALUE STOCKS are represented by the Bloomberg U.S. 2000 Value Index, comprised of those companies in the Bloomberg U.S. 2000 Index with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth. FOREIGN STOCKS are represented by the MSCI EAFE Index, generally considered representative of the international stock market. There are special considerations with international investing, including the risk of currency fluctuations and political and economic events. BONDS are represented by the Bloomberg U.S. Aggregate Index, generally representative of intermediate-term government bonds, investment-grade corporate debt securities, and mortgage-backed securities. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The DIVERSIFIED PORTFOLIO assumes an equal allocation among the thirteen asset classes, as represented by the indicated indices, and is calculated as a simple average of the thirteen asset classes' returns. Past performance is no guarantee of future results. Diversification does not ensure a profit and does not protect against loss. Performance figures according to Zephyr Style ADVISOR.

The preceding chart provides an excellent example of how diversifying among asset classes may benefit investors. The chart shows how various asset classes performed on a year-by-year basis from 2008 through 2024, according to Zephyr StyleADVISOR. With an impressive annual return of 31.33%, one of the best-performing asset classes in 2016 was small value stocks, which are typically investments that carry greater risk than some investments, such as bonds. However, just one year later and for several years thereafter, small value stocks were one of the worst-performing asset classes. This example shows how one asset class may perform drastically different from year to year.

Understanding the Asset Classes

The bond asset class typically consists of fixed income securities, such as corporate, municipal, and government bonds, and the cash asset class may be CDs or money market accounts. However, the stock asset class can be further broken down into what may be categorized as sub-classes. These sub-classes allow investors to allocate their funds among various capitalizations, styles, and foreign investments.

Market capitalization is a company's total stock market value. Organizations will generally be defined as small-capitalization ($1 billion or less), mid-capitalization ($1 billion to $10 billion), or large-capitalization ($10 billion or more) companies. Typically, investing in small companies offers the potential for higher gains but is also accompanied by higher risk. On the other hand, investing in large companies generally offers greater stability with less risk.

There are two investing styles that are consistently in the forefront of investing: growth and value. Growth investing focuses on companies that are believed to be in the early stages of considerable earnings growth, often characterized by high return on equity and low dividend payout. Value investing, on the other hand, concentrates on stocks that have high dividend yield and are believed to be undervalued by the market. Historically, growth and value investments have performed "countercyclically." This means that when one style falls out of favor, the other usually becomes the preferred choice.

Investors may find that the capitalization and style classes are intertwined. For example, it is possible to invest in a small capitalization growth stock or a small capitalization value stock.

Investors can take advantage of investing in foreign companies by selecting foreign stocks as part of their asset allocation mix. While there are potential political, economic, and currency risks involved with investing in international markets, if a portfolio is diversified over several economies, an economy that is in an upswing can offset others that may be in a downswing, since international and U.S. economies move in noncorrelated cycles.

Choosing Your Asset Allocation Mix

Determining how much to invest in each asset class will vary between investors. Before selecting investments, investors must carefully evaluate their investment objectives, investing time horizon, and ability to invest. By reviewing these key characteristics, investors should have an accurate understanding of their risk tolerance level.

Risk tolerance is the extent to which an investor is willing to withstand market volatility and the risks associated with different types of investments. In general, the greater the risk, the greater the price fluctuation.

An investor's emotional tolerance for risk can also be an important factor in determining their tolerance for risk. Even though their financial situation may allow for a higher level of risk, their peace of mind may dictate a safer investment plan.

Each investor's risk tolerance will determine what percentage of his or her funds should be invested among the various asset classes in their portfolio. Investors are often categorized into one of five risk profiles. Conservative investors generally limit their exposure to risk by concentrating on high-quality, investment-grade fixed income



investments. Moderate investors may opt to invest a portion of their assets in equities, including individual stocks and stock mutual funds, while also maintaining some portion of their assets in bonds. An aggressive investor will generally invest the majority of his or her assets in equities, with little or no bond exposure. Most investors may find that they don't necessarily fall into one of these exact categories, but are either moderately conservative or moderately aggressive, which represents a blend of styles. This is why investors should identify their specific risk profile and treat this as an integral part of the investment plan.

Which Asset Classes Are Right For You?

We can provide you with a customized Asset Allocation Analysis Report. This report will detail an asset allocation mix that is based on your own investment objectives and tolerance for risk. If you would like assistance determining your asset allocation plan, I invite you to call me today.