What are the benefits of a diversified portfolio?

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At Winthrop Wealth Management, we apply a total net worth approach to both comprehensive financial planning and investment management. For the majority of our clients, we manage close to one hundred percent of their investable assets. However, investments held outside of our direct control and/or other assets, including, real estate, business ownership interests, restricted stock, insurance policies, and annuities are always taken into consideration. We create custom solutions for our client's entire financial picture by implementing a proactive, conservative, and risk-based financial planning and investment management process.

Our total net worth approach serves as the basis for our investment philosophy and process. Our objective is to provide diversified portfolios designed to help our client's meet their long-term goals and objectives. We do not invest exclusively in a single asset class or style that can move in and out of favor. We also stress the importance of understanding the difference between a single strategy and a total net worth approach. A single strategy can have over-concentrations across asset classes, factors, sectors, or individual positions. Our view is that a single strategy (i.e. value or growth equities) may be appropriate for a portion of a portfolio, but not for a client's entire asset base. We seek to combine asset classes and exposures to achieve a defined level of risk; one that is both appropriate and palatable to the client in their journey to reach their goals.

The following data suggests that a diversified portfolio can lead to more consistent and less volatile results than a single asset class. The goal of any investment portfolio should be to consistently produce strong risk-adjusted performance – this is what separates talented portfolio managers from the rest of the pack. For individual investors the level of portfolio risk will vary depending on their individual circumstances.

To highlight the benefits of diversification, we examined the total return performance of nine separate asset classes and a diversified asset allocation portfolio from 2004 to 2018. This fifteen-year period includes the 2008 Global Financial Crisis. Note that from year-to-year many asset classes rotate from top to bottom performers. We will also highlight that the asset allocation portfolio consistently stays the middle. Why is that? Our hypothetical diversified asset allocation portfolio is comprised of 60% equities, 35% fixed income, 2% commodities, and 3% cash. Without getting too technical, the underlying asset classes are not perfectly correlated, in other words, they do not all move in the same direction. Furthermore, asset classes including equities and fixed income can sometimes have a negative correlation, meaning they move in opposite directions and act as a ballast. Over the full time period, the diversified asset allocation portfolio ranks as the 6th best performer, with the 7th lowest volatility, and the 3rd best Sharpe Ratio (risk-adjusted performance).

As part of our active investment process, we create diversified portfolios with a focus on risk-adjusted performance while accounting for upcoming cash flows. We believe this approach has several benefits:

- Potentially decreases the odds that our client's will need to make a withdrawal after a significant market decline. A common and costly mistake is not planning for a scheduled cash flow need in advance, and then needing to fund it by selling assets AFTER a market drop. Although investment returns over the last several years have been strong, past performance is no guarantee of future results and we cannot predict the future. What we can do is pair comprehensive financial planning with investment management. Without a financial plan, the investor faces serious risk of having an improper asset allocation at an unfortunate time. We help our clients navigate through challenging markets by ensuring their short-term cash flow needs are covered, while managing the rest of their assets in globally diversified portfolios designed to meet longer-term goals.

- Avoids single strategy over-concentration. We will tilt portfolios toward the asset classes we believe will provide the best risk-adjusted performance going forward. However, we will not generally make large bets or completely abandon an asset class. As demonstrated in the above chart, selecting the best performing asset class in any given year is extraordinarily difficult to do, so we prefer not putting all our eggs in one basket. Additionally, rotating asset classes on a yearly basis could potentially create large capital gains for taxable accounts.

At Winthrop Wealth Management, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

Asset Class Returns

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2004 - 2018 Annualized Return	Annualized Volatility	Sharpe Ratio
Emerging Markets 25.6%	Emerging Markets 34.0%	Emerging Markets 32.1%	Emerging Markets 39.4%	Fixed Income 5.2%	Emerging Markets 78.5%	Small Cap 26.8%	Fixed Income 7.8%	Emerging Markets 18.2%	Small Cap 38.8%	Large Cap 13.7%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Cash 1.8%	Mid Cap 8.9%	Emerging Markets 21.4%	Fixed Income 0.82
Developed International 20.2%	Commodities 21.4%	Developed International 26.3%	Commodities 16.2%	Cash 1.8%	High Yield 58.2%	Mid Cap 26.6%	High Yield 5.0%	Mid Cap 17.8%	Mid Cap 33.5%	Mid Cap 9.7%	Fixed Income 0.5%	Mid Cap 20.7%	Developed International 25.0%	Fixed Income 0%	Emerging Markets 7.9%	Small Cap 18.4%	High Yield 0.64
Small Cap 18.3%	Developed International 13.5%	Small Cap 18.3%	Developed International 11.2%	**Asset Allocation -23.5%**	Mid Cap 37.3%	Emerging Markets 18.9%	Large Cap 2.1%	Developed International 17.3%	Large Cap 32.4%	**Asset Allocation 7.1%**	Cash 0%	High Yield 17.1%	Large Cap 21.8%	High Yield -2.1%	Large Cap 7.8%	Commodities 16.3%	**Asset Allocation 0.57**
Mid Cap 16.5%	Mid Cap 12.6%	Large Cap 15.8%	Mid Cap 8.0%	High Yield -26.2%	Developed International 31.8%	Commodities 16.8%	**Asset Allocation 1.3%**	Small Cap 16.4%	Developed International 22.8%	Fixed Income 6.0%	**Asset Allocation -0.8%**	Large Cap 12.0%	Mid Cap 16.2%	Large Cap -4.4%	Small Cap 7.5%	Developed International 16.3%	Large Cap 0.48
High Yield 11.1%	**Asset Allocation 6.3%**	**Asset Allocation 12.9%**	**Asset Allocation 7.3%**	Small Cap -33.8%	Small Cap 27.1%	High Yield 15.1%	Cash 0.1%	Large Cap 16.0%	**Asset Allocation 17.4%**	Small Cap 4.9%	Developed International -0.8%	Commodities 11.8%	**Asset Allocation 14.8%**	**Asset Allocation -4.6%**	High Yield 7.0%	Mid Cap 16.2%	Mid Cap 0.47
Large Cap 10.9%	Large Cap 4.9%	High Yield 11.8%	Fixed Income 7.0%	Commodities -35.6%	Large Cap 26.4%	Large Cap 15.1%	Mid Cap -1.7%	High Yield 15.8%	High Yield 7.4%	High Yield 2.5%	Mid Cap -2.2%	Emerging Markets 11.2%	Small Cap 14.6%	Small Cap -11.0%	**Asset Allocation 6.4%**	Large Cap 13.5%	Small Cap 0.34
Asset Allocation 10.4%	Small Cap 4.5%	Mid Cap 10.3%	Large Cap 5.6%	Mid Cap -36.2%	**Asset Allocation 23.4%**	**Asset Allocation 12.5%**	Small Cap -4.2%	**Asset Allocation 11.9%**	Cash 0%	Cash 0%	Small Cap -4.4%	**Asset Allocation 8.8%**	High Yield 7.5%	Mid Cap -11.1%	Developed International 4.7%	**Asset Allocation 9.1%**	Emerging Markets 0.31
Commodities 9.1%	Cash 3.0%	Cash 4.8%	Cash 4.8%	Large Cap -37.0%	Commodities 18.9%	Developed International 7.8%	Developed International -12.1%	Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -2.2%	High Yield -4.5%	Fixed Income 2.6%	Fixed Income 3.5%	Commodities -11.2%	Fixed Income 3.9%	High Yield 9%	Developed International 0.21
Fixed Income 4.3%	High Yield 2.7%	Fixed Income 4.3%	High Yield 1.9%	Developed International -43.4%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash 0.1%	Emerging Markets -2.6%	Developed International -4.9%	Emerging Markets -14.9%	Developed International 1.0%	Commodities 1.7%	Developed International -13.8%	Cash 1.3%	Fixed Income 3.2%	Cash 0
Cash 1.2%	Fixed Income 2.4%	Commodities 2.1%	Small Cap -1.6%	Emerging Markets -53.3%	Cash 0.1%	Cash 0.1%	Emerging Markets -18.4%	Commodities -1.1%	Commodities -9.5%	Commodities -17%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.6%	Commodities -2.5%	Cash 0.5%	Commodities -0.23

Asset Class Key

Large Cap:	S&P 500	Developed International:	MSCI EAFE	Fixed Income:	Bloomberg Barclays US Agg
Mid Cap:	S&P 400	Emerging Markets:	MSCI Emerging Markets	Treasury Bills:	Bloomberg Barclays 1-3M Treasury Bills
Small Cap:	Russell 2000	High Yield	Bloomberg Barclays US Corporate High Yield	Commodities:	Bloomberg Commodity Total Return Index

Hypothetical Asset Allocation Portfolio Weights

Large Cap:	40%	Developed International:	9%	Fixed Income:	30%
Mid Cap:	4%	Emerging Markets:	3%	Treasury Bills:	3%
Small Cap:	4%	High Yield	5%	Commodities:	2%

SOURCE: BLOOMBERG 2019

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Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

No strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing. All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Past performance is no guarantee of future results. The hypothetical rates of return used are not representative of any specific security. Actual results will vary.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

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