



CAPSTONE

Building Wealth, Controlling Risk

THE VALUE OF DIVERSIFICATION

Best Performing Indices



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Mid Cap Growth 51.29%	Commodities 49.77%	Bonds 8.42%	Commodities 32.08%	Mid Cap Growth 42.72%	Mid Cap Value 23.70%	Commodities 25.56%	International 26.86%	Commodities 32.68%	Bonds 5.24%	Mid Cap Growth 46.29%
	Commodities 40.90%	Mid Cap Value 19.18%	T-Bill 4.09%	Bonds 10.27%	International 39.16%	International 20.70%	International 14.02%	Large Value 22.25%	Large Growth 11.81%	T-Bill 1.80%	Large Growth 37.21%
	Large Growth 33.16%	Bonds 11.63%	Mid Cap Value 2.33%	T-Bill 1.70%	Mid Cap Value 38.06%	Commodities 17.27%	Mid Cap Value 12.64%	Mid Cap Value 20.22%	International 11.63%	Large Value -36.85%	Mid Cap Value 34.21%
	International 27.30%	Large Value 7.02%	Large Value -5.59%	Mid Cap Value -9.65%	Large Value 30.03%	Large Value 16.49%	Mid Cap Growth 12.09%	Large Core 15.80%	Mid Cap Growth 11.42%	Large Core -37.00%	International 32.46%
	Large Core 21.04%	T-Bill 5.96%	Large Core -11.88%	Large Value -15.52%	Large Growth 29.76%	Mid Cap Growth 15.48%	Large Value 7.05%	Mid Cap Growth 10.66%	Bonds 6.96%	Mid Cap Value -38.44%	Large Core 26.46%
	Large Value 7.35%	Large Core -9.11%	Mid Cap Growth -20.17%	International -15.64%	Large Core 28.69%	Large Core 10.87%	Large Growth 5.27%	Large Growth 9.07%	Large Core 5.49%	Large Growth -38.44%	Large Value 19.69%
	T-Bill 4.74%	Mid Cap Growth -11.74%	Large Growth -20.42%	Large Core -22.11%	Commodities 20.72%	Large Growth 6.30%	Large Core 4.90%	T-Bill 4.76%	T-Bill 4.74%	International -43.06%	Commodities 13.48%
	Mid Cap Value -0.11%	International -13.95%	International -21.21%	Mid Cap Growth -27.40%	Bonds 4.11%	Bonds 4.34%	T-Bill 3.00%	Bonds 4.33%	Large Value -0.17%	Mid Cap Growth -44.32%	Bonds 5.93%
	Bonds -0.83%	Large Growth -22.43%	Commodities -31.94	Large Growth -27.89%	T-Bill 1.07%	T-Bill 1.24%	Bonds 2.43%	Commodities -15.10%	Mid Cap Value -1.42%	Commodities -46.61%	T-Bill 0.09%

Worst Performing Indices

Index Color Key and Definitions



Large Growth
Russell 1000 Growth Index
Measures the performance of those Russell 1000 companies with higher forecasted growth values. Benchmark for large cap growth.



Large Value
Russell 1000 Value Index
Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth rates. Benchmark for large cap value.



Large Core
S&P 500 Index
Widely regarded as the standard for measuring large-cap U.S. stock market performance, this popular index includes a representative sample of leading companies in leading industries.



Mid Cap Growth
Russell Mid Cap Growth Index
Contains those Russell Mid-Cap securities with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index.



Mid Cap Value
Russell Mid Cap Value Index
Includes those Russell Mid Cap Index companies with lower price-to-book ratios and lower forecasted growth values.



International
Morgan Stanley EAFE Index
Measures the performance of stock markets of Europe, Australia and Far Eastern regions - developed markets only - includes 20 countries. International benchmark.



T-Bill
Citigroup 1 Month Treasury Bill
Measures the performance of short-term treasuries. Cash benchmark.



Intermediate Bonds
Barclay's Capital Aggregate Bond Index
A broad market weighted index which encompasses U.S. Treasuries and agency securities, investment grade corporate bonds, international investment grade bonds, and mortgage-backed securities. Fixed Income benchmark.



Commodities
S&P Goldman Sachs Commodity Index
The S&P GSCI is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

Source: Informa Investment Solutions – PSN

This chart depicts various indices that are unmanaged and are comprised of issues that are representative of different markets capitalizations. This data is being provided for informational purposes only and is based upon information provided by an outside source that we believe to be reliable. The chart is meant to depict the relative potential of asset allocation and diversification amongst different asset classes or investment styles in a twelve year period.

“DON’T PUT ALL OF YOUR EGGS IN ONE BASKET”

For years, financial advisors have urged investors to spread their money across different types of asset classes in order to reduce risk and enhance long-term returns.

Yet, all too often, investors ignore this advice, pouring the bulk of their funds into a relatively narrow handful of investments - or even into a single security. Proper diversification is certainly an important factor to achieving long-term financial success.

The concept of diversification finds its roots in Modern Portfolio Theory. This theory states that portfolios created using a mix of different asset classes and investment styles deliver higher returns with less risk than any one asset would by itself. The goal of asset allocation is to identify the best possible combination of assets, based on their expected returns and the expected fluctuation - or volatility - of those returns over time. With this information, investors can construct portfolios that reflect this optimal mix as closely as possible.

An asset classes' success is decided by the correlation between the rate of return and the level of risk in the portfolio. Therefore, the portfolio's performance is dependent on the strength of the correlation. Modern Portfolio Theory predicts that the higher the risk, the higher the return. The same would hold true if the opposite were to occur; however, even asset classes with lower returns and a higher risk may improve portfolio performance. The portfolio performance is based on the strength of the relationship between risk and return.

Experienced investors expect diversified portfolios to fall above any specific asset class on a chart that plots risk and return. This is because combining assets in diversified portfolios historically has allowed investors to earn higher returns with less risk than they could by investing in any single asset class alone. The most properly diversified portfolios reflect the best trade-off between risk and return given the various possible combinations of assets.

Developing an asset allocation strategy requires an examination, using statistical estimates, that includes a careful analysis of both past asset class performance and expected future trends. While asset allocation begins with an analysis of historic asset performance, it doesn't end there. The capital markets are constantly evolving and due to global economic, political or other forces, what occurred yesterday might not happen tomorrow. With many different variables and strategies impacting diversification decisions, many investors may find it difficult to chart an appropriate course.

In order to make the best decision, it is important to consider the factors that impact your asset allocation strategy. Besides past performance, we have mentioned that the expected returns, volatility of an asset class, and the correlation between the two influence the portfolio performance and should impact your decision on which assets to allocate.