

Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

December 2019

Your Diversified Portfolio vs. the S&P 500

How global returns and proper diversification are affecting overall returns

THE MONTH IN BRIEF

The S&P 500 rose 3.4% in November and attained a series of record closes in the process. Earnings results helped stocks, as did intermittent signals that the first stage of a U.S.-China trade agreement might be near at hand. Job creation improved, and consumer spending lived up to market expectations; consumer confidence and business activity, not so much. Housing indicators communicated good news, and the rally in stocks made the commodity sector look less attractive.

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+20.25	+3.72	-5.63
NASDAQ	+30.60	+4.50	-3.88
S&P 500	+25.30	+3.40	-6.24
YIELD	7/31 RATE	1 MO AGO	1 YR AGO
10 YR NOTE	1.78	1.84	3.03

Sources: wsj.com, treasury.gov – 11/29/19^{18,19,20}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

Monthly Quote

"The art of living easily as to money is to pitch your scale of living one degree below your means."

SIR HENRY TAYLOR

Tip of the Month

As individuals accumulate assets, some realize that the liability coverage limit on their homeowner policy may be too low. Some opt to carry a personal umbrella liability (PUL) policy as a complement.

The Monthly Riddle

A trail, a union, together tied. Come across me and you will find, you cannot change the course I'm on, without me you cannot travel on. What am I?

Last month's riddle:

I have numbers on my face, but cannot find 13 in any place. What am I?

Last month's answer:

A clock

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"Why is my portfolio underperforming the market?" This question may be on your mind. It is a question that investors sometimes ask after stocks shatter records or return exceptionally well in a quarter.

The short answer is that even when Wall Street rallies, international markets and intermediate and long-term bonds may underperform and exert a drag on overall portfolio performance. A little elaboration will help explain things further.

A diversified portfolio necessarily includes a range of asset classes. This will always be the case, and while investors may wish for an all-equities portfolio when stocks are surging, a 100% stock allocation is obviously fraught with risk.

Because the stock market has advanced so much over the past decade, some investors now have larger positions in equities than they originally planned, and that may leave them exposed to an uncomfortable degree of market risk. A portfolio held evenly in equities and fixed income ten years ago may now have a clear majority of its assets in equities, with the performance of stock markets influencing its return to a greater degree.¹

Yes, stock markets – not just here, but abroad. U.S. investors have more global exposure than they once did. International holdings represented about 5% of the typical investor's portfolio back in the 1990s. Today, they account for around 15%. If overseas markets struggle, the impact on portfolio performance may be noticeable.²

In addition, a sudden change in sector performance can have an impact. At one point in 2018, tech stocks accounted for 25% of the weight of the S&P 500. While the recent restructuring of S&P sectors lowered that by a few percentage points, portfolios can still be greatly affected when tech shares slide, as investors witnessed in late 2018.³

The state of the fixed-income market can also potentially impact portfolio performance. Bond prices commonly fall when interest rates rise, which presents a short-term concern for an investor. If a bond is held to maturity, though, the investor will receive the promised principal and interest (assuming no default on the part of the issuer). Moreover, a rising interest rate environment may help the fixed-income segment of the portfolio's long-term performance. New bonds issued in a rising interest rate environment have the potential to generate more yield than the older bonds of similar duration that they replace.⁴

This year, U.S. stocks have done well. A portfolio 100% invested in the U.S. stock market in 2019 would have a year-to-date return approximating that of the S&P 500. But who invests entirely in stocks, let alone without any exposure to international and emerging markets?⁵

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Just as an illustration, assume that there actually is a hypothetical investor this year who is 100% invested in equities, as follows: 50% domestic, 35% developed foreign markets, and 15% emerging markets.

In this illustration, the S&P 500 will serve as the model for the U.S. market, MSCI's EAFE index will stand in for developed foreign markets, and MSCI's Emerging Markets index will represent the emerging markets. Through the end of July, the S&P was +18.89% year-to-date, the EAFE +10.31% YTD, and the Emerging Markets just +7.38% YTD. As foreign and domestic stocks have equal weight in this hypothetical portfolio, it is easy to see that its overall YTD gain would have been less than 18.9% as of the July 31 closing bell.^{6,7}

Your portfolio is not the market – and vice versa. Your investments may return less than the S&P 500 (or another benchmark) in a particular year due to various factors, including the behavior of the investment markets. Those markets are ever-changing. In some years, you may get a double-digit return. In other years, your return may be much smaller.

When your portfolio is diversified across asset classes, the highs may not be so high – but the lows may not be so low, either. If things turn volatile, diversification may help insulate you from some of the ups and downs that come with investing.



For more information on investment choices for your retirement plan, please call Darsh Makim at 202-618-3977 or email at dmakim@pointoak.com

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CITATIONS ECONOMIC SECTION:

18 - quotes.wsj.com/index/SPX/historical-prices [11/29/19]

19 - markets.wsj.com/us [12/31/18]

20 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldAll [11/29/19]

CITATIONS FINANCIAL ARTICLE SECTION:

1 - money.com/money/5481891/this-is-how-much-money-you-should-have-in-stocks-at-every-age/ [12/18/18]

2 - forbes.com/sites/simonmoore/2018/08/05/how-most-investors-get-their-international-stock-exposure-wrong/ [8/5/18]

3 - cnbc.com/2018/04/20/tech-dominates-the-sp-500-but-thats-not-always-a-bad-omen.html [4/20/18]

4 - fidelity.com/viewpoints/investing-ideas/fed-rate-hike-worries [4/23/19]

5 - investopedia.com/ask/answers/12/beating-the-market.asp [6/25/19]

6 - us.spindices.com/indices/equity/sp-500 [7/31/19]

7 - msci.com/end-of-day-data-search [7/31/19]

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