



VAUGHN  
— WEALTH —



## A Tale of Two Decades

Investors naturally want to only hold the best performing assets all the time. One of the most important jobs we have is to make sure our clients maintain the proper allocation for their risk level and time horizon and avoid the persuasion to react to recent market swings. Inevitably, portfolios covering a broad spectrum of asset classes will have positions that do not compare favorably with the flavor of the day. No one ever likes to own a loser. However, research and history continue to remind us that a broadly diversified portfolio is ultimately the only way to win over the long term.

Most of you likely already know that the value, small cap and international categories have performed unfavorably relative to their counterparts in recent periods. For several years, the large cap growth companies in the DOW and S&P 500 have fared very well on a comparative basis. A question we hear very often is should we sell our international positions and move away from small and value tilts toward domestic large growth given the recent comparison. The linked article compares the net returns of these various classes from January 2000 to June of 2019. For the first decade of this century, you can see that small, value and foreign indexes outperformed the S&P 500 index. In the next decade, the S&P 500 ended up outpacing all the other classes measurably. However, for the entire period (2000-2019) small, value and international still have an edge in overall performance. Most importantly, the analysis also shows that over this entire period, a broadly diversified market wide index outperformed the less diversified but recently hot S&P 500.

In summary, the analysis confirms the need to maintain a diversified investment approach that will sometimes include positions that do not compare well with current market leaders. To stay the course, we are certainly required to continually monitor and compare the markets. But, chasing the most recent winner does not pay over the long term.

As always, if you have any questions and would like to discuss this or any other topic, please feel free to call us.

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