T. Rowe Price®
INVEST WITH CONFIDENCE

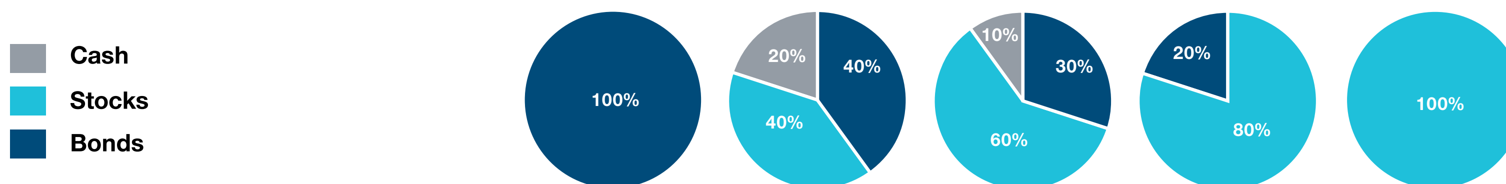
Speaking of markets

DOES DIVERSIFICATION STILL WORK?

After the bear market of 2008–2009, many people question whether diversification is still a relevant strategy for today's investors. Even with the recent downturn, an all-equity portfolio still would have outperformed an all-bond portfolio over the last 60 years, but with nearly three times the volatility.

See how diversification can reduce this volatility while still offering significant rewards.

Performance of Various Asset Allocation Strategies December 31, 1954, to December 31, 2014



Return for Best Year	29.1%	22.9%	28.2%	34.4%	43.4%
Return for Worst Year	-5.1%	-9.2%	-18.1%	-27.0%	-37.0%
Average Annual Nominal Return	6.3%	8.0%	9.0%	9.9%	10.4%
Number of Down Years	9	11	12	13	13
Average Loss (in Down Years)	-1.5%	-2.7%	-6.1%	-9.3%	-13.4%
Annualized Standard Deviation	5.1%	6.3%	9.0%	11.7%	14.6%
Average Annual Real (Inflation-Adjusted) Return	2.6%	4.3%	5.3%	6.2%	6.7%

These hypothetical portfolios combine stability, income, and growth investments to represent a range of potential risk/reward profiles. For each allocation model, historical data are shown to represent how the portfolios would have fared in the past. Figures include changes in principal value and reinvested dividends and assume the portfolios are rebalanced every year. Stocks are represented by the S&P 500 Stock Index, bonds by the U.S. Intermediate Government Bond Index, and cash by U.S. 30-day Treasury bills.

Source: T. Rowe Price Associates. Data supplied by Morningstar. It is not possible to invest directly in an index. Past performance cannot guarantee future results.

Charts are shown for illustrative purposes only and do not represent the performance of any specific security.

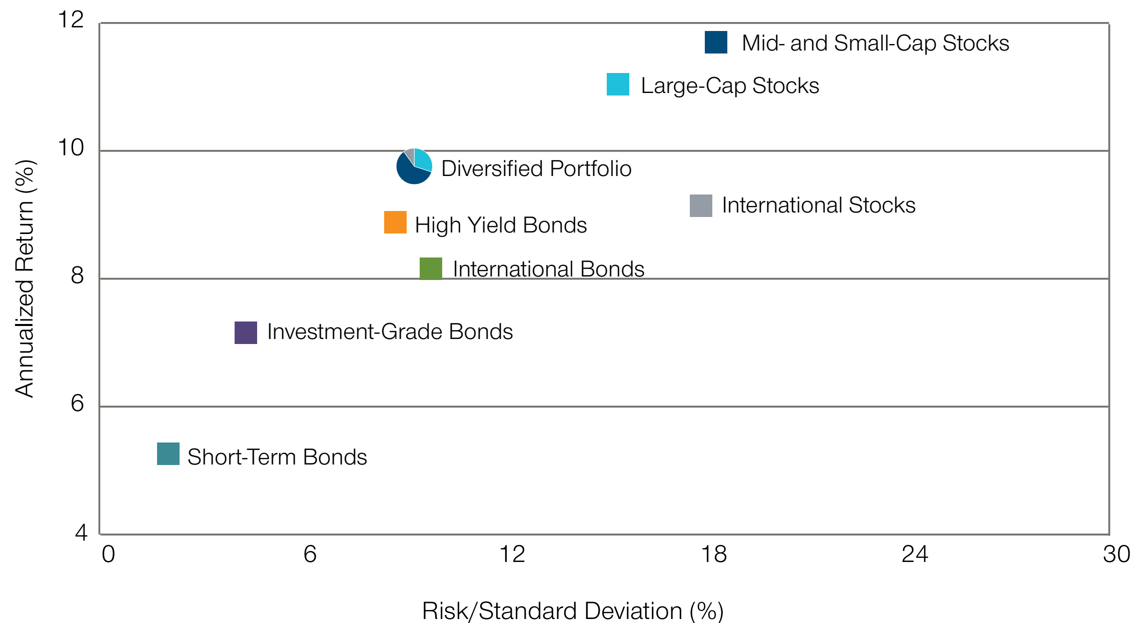
■ Not A Deposit ■ Not FDIC-Insured ■ Not Insured By Any Federal Government Agency
■ Not Guaranteed By Any Bank Or Credit Union ■ May Go Down In Value

DIVERSIFICATION CAN WORK BY REDUCING VOLATILITY WHILE PRESERVING RETURN POTENTIAL.

This chart shows how a diversified portfolio's risk/reward compares with other assets. Note that the diversified portfolio would have offered 91% of the return of the all-equity portfolio with about 83% of the volatility.

Risk and Return of Balanced Portfolio Versus Various Market Components December 31, 1984, through December 31, 2014

Diversified Portfolio



The well-diversified balanced portfolio would have provided 91% of the return of the S&P 500 Index with about 83% of the volatility. However, investment-grade bonds had unusually strong returns over this period as interest rates had a secular decline. The equity portion of the balanced portfolio includes 36% large-cap stocks, 12% mid- and small-cap stocks, and 12% international stocks; the bond portion includes 10% short-term bonds, 21% investment-grade bonds, 6% high yield bonds, and 3% international bonds. The historical performance is based on the following indexes to represent these asset classes: Barclays U.S. Aggregate Bond—investment-grade corporate and government bonds; Barclays Capital Govt./Credit 1–3 Year Bond—measures the performance of investment-grade corporate debt and sovereign, supranational, local authority, and non-U.S. agency bonds that are U.S. dollar-denominated; Barclays U.S. High Yield Bond—total return performance benchmark for fixed income securities having a maximum quality rating of Ba1 (as determined by Moody's Investors Service); Citi World Global Bond Index non-U.S.—market capitalization-weighted index consisting of the government bond markets; S&P 500—500 large-company U.S. stocks; Russell 2500—measures the performance of the small- to mid-cap segment of the U.S. equity universe; and MSCI EAFE—the stocks of about 1,000 companies in Europe, Australasia, and the Far East. Allocations are considered static and are rebalanced monthly. The time period chosen is based on the availability of the indexes. The Citi World Government Bond Index non-U.S. is not depicted in the graph.

Source: T. Rowe Price Associates. It is not possible to invest directly in an index. Past performance cannot guarantee future results. Diversification cannot assure a profit or protect against loss in a declining market.

T. Rowe Price Investment Services, Inc.