

# Unpredictable Style

## Style performance varies from year to year making it difficult to predict winners

Annual asset class returns from highest to lowest over the last 10 years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Highest returns	51.2% LG	52.5 MG	24.6 MV	18.6 SV	-8.2 SV	52.6 SG	24.3 MV	16.3 MG	25.8 LV	19.7 MG
	17.9 LV	46.8 SG	18.7 SV	5.1 MV	-10.0 MV	48.9 SV	24.0 SV	11.5 MV	20.0 SV	12.3 LG
	9.5 MG	42.6 LG	5.7 LV	-3.4 LV	-15.0 LV	40.0 MG	15.5 MG	7.0 LV	18.8 MV	11.1 SG
	5.9 MV	0.6 LV	-11.1 MG	-12.9 SG	-32.5 MG	35.9 MV	14.0 LV	5.8 SG	10.0 SG	-0.4 LV
	-3.7 SV	-5.2 SV	-12.1 SG	-21.6 MG	-33.2 LG	30.6 LG	13.5 SG	5.1 SV	9.6 MG	-5.5 MV
Lowest returns	-6.5 SG	-6.8 MV	-33.5 LG	-29.1 LG	-36.9 SG	26.3 LV	0.2 LG	3.4 LG	5.7 LG	-8.1 SV

● Large Growth (LG)  
 ● Large Value (LV)  
 ● Mid Growth (MG)  
 ● Mid Value (MV)  
 ● Small Growth (SG)  
 ● Small Value (SV)

### Style performance varies

One major decision, when choosing among equities, is whether to buy growth- or value-oriented stocks. Under different market conditions, growth stocks (low book-to-price ratios) and value stocks (high book-to-price ratios) have demonstrated different performance patterns. Further categorization among equities includes a split for firm size (small-, mid-, and large-cap).

With so many choices, it is nearly impossible to predict which asset class will be the best or worst performing in any given year.

### Diversification can smooth out the bumps

The image above shows that value stocks had generally been strong since the early 2000s, but individual size groupings are scattered. Investors standing in 2006 might have seen a need for an overweighting in value, but they would have seen a dramatic resurgence in growth in 2007.

A well-diversified portfolio allows investors to mitigate some of the risks associated with investing. By investing a portion of a portfolio in a number of different styles, portfolio volatility can be reduced--softening the highs and lows of trying to pick the winning style.

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