

MARKET UNPREDICTABILITY

Annual Returns for Market Indexes 2006–2015

If you knew that in any given time period a certain area of the stock or bond markets would outperform, investing would be easy. But it's almost impossible to predict future market returns with any consistency. Consider this chart, which shows how different stock and bond indexes have performed since 2006, ranked from the highest to lowest performers. Do you see any noticeable patterns? Probably not!

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
HIGHER RETURN ↑	Developed Int'l 26.34%	Large Growth 11.81%	Bond 5.24%	Large Growth 37.21%	Small Growth 29.09%	Bond 7.84%	Small Value 18.05%	Small Growth 43.30%	Large Value 13.45%	Large Growth 5.67%
	Small Value 23.48%	Developed Int'l 11.17%	Cash 2.06%	Small Growth 34.47%	Small Value 24.50%	Balanced 4.34%	Large Value 17.51%	Small Value 34.52%	Large Growth 13.05%	Balanced 1.00%
	Large Value 22.25%	Small Growth 7.05%	Balanced -22.47%	Developed Int'l 31.78%	Large Growth 16.71%	Large Growth 2.64%	Developed Int'l 17.32%	Large Growth 33.48%	Balanced 10.36%	Bond 0.55%
	Small Growth 13.35%	Bond 6.97%	Small Value -28.92%	Small Value 20.58%	Large Value 15.51%	Large Value 0.39%	Large Growth 15.26%	Large Value 32.53%	Bond 5.97%	Cash 0.05%
	Balanced 10.93%	Balanced 6.39%	Large Value -36.85%	Large Value 19.69%	Balanced 12.74%	Cash 0.10%	Small Growth 14.59%	Developed Int'l 22.78%	Small Growth 5.60%	Developed Int'l -0.81%
	Large Growth 9.07%	Cash 5.00%	Large Growth -38.44%	Balanced 19.50%	Developed Int'l 7.75%	Small Growth -2.91%	Balanced 11.55%	Balanced 17.95%	Small Value 4.22%	Small Growth -1.38%
	Cash 4.85%	Large Value -0.17%	Small Growth -38.54%	Bond 5.93%	Bond 6.54%	Small Value -5.50%	Bond 4.21%	Cash 0.07%	Cash 0.03%	Large Value -3.83%
LOWER RETURN ↓	Bond 4.33%	Small Value -9.78%	Developed Int'l -43.38%	Cash 0.21%	Cash 0.13%	Developed Int'l -12.14%	Cash 0.11%	Bond -2.02%	Developed Int'l -4.90%	Small Value -7.47%

- **Large Growth** (large-cap growth U.S. stocks, represented by Russell 1000 Growth Index)
- **Large Value** (large-cap value U.S. stocks, represented by Russell 1000 Value Index)
- **Small Growth** (small-cap growth U.S. stocks, represented by Russell 2000 Growth Index)
- **Small Value** (small-cap value U.S. stocks, represented by Russell 2000 Value Index)
- **Developed Int'l** (developed market stocks excluding U.S. and Canada, represented by MSCI EAFE Index (Net))
- **Bonds** (investment-grade U.S. fixed-income securities, represented by Barclays Capital U.S. Aggregate Bond Index)
- **Balanced** (60% Russell 1000 Index and 40% Barclays Capital U.S. Aggregate Bond Index)
- **Cash** (3-Month Treasury Bill)

What can we learn? When a certain area of the market, or the stock or bond markets as a whole, are performing higher than their long-term historical averages, it may last for a while but it is reasonable to assume that it won't continue and may even be followed by underperformance. Conversely, performance that is well below average often gets better. The end result is that, over long periods of time, returns tend to revert back to long-term averages.

As the chart suggests, predicting when the markets will turn up or down is quite a feat. Instead, consider investing in a diversified portfolio that gives you exposure to several areas of the market, with proportions that are most likely to meet your investment goals

with a level of risk that is suitable for you. You might achieve this through one or two highly diversified funds or through selecting several complementary funds. Diversification will not ensure against losses but it can limit extreme losses and reduce your overall volatility.

And while there will always be one or more areas of the market that are temporarily performing better than your diversified portfolio, be wary of “chasing performance.” You may well be late to the party!

To learn more, contact your ICMA-RC representative or visit www.icmarc.org/invest.

Source: Morningstar Direct. Past performance does not guarantee future returns. It is not possible to invest in an actual index.