

Another Reason for Asset Allocation

We recently completed a report concerning the erroneous assumption that actively managed funds cannot beat the unmanaged S&P 500 Index. While finishing that report, we realized that one of the study's findings also helps support the value of asset allocation.

The following chart lists the average annual return <u>rank</u> — not the annual return — of 38 different fund categories for the 29-year period 1988-2016. Many investors think that <u>the top</u> <u>performing category must have an annual average return rank close to 1</u>; however, no single category has the answer all of the time. In fact, the <u>top performing mutual fund category during</u> <u>this period is mid cap with an annual average return ranking of 13</u>. Also note that the S&P 500 Index fund category was beaten by no less than seven other fund categories during the study. *So you can't beat the S&P 500, huh?*

| | Category | Average Annual Rank | | Category | Average Annual Rank |
|----|------------------------|------------------------|----|----------------------------------|------------------------|
| 1 | Mid Cap | 13.2 | 20 | General Bond-Long | 20.2 |
| 2 | Health/Biotechnology | 14.2 | 21 | Emerging Market Equity | 20.7 |
| 3 | Real Estate | 14.8 | 22 | Non-US Equity | 21.2 |
| 4 | Technology | 14.9 | 23 | US Government-Long | 21.2 |
| 5 | Small Cap | 15.3 | 24 | Corporate-Investment Grade | 21.5 |
| 6 | Growth | 15.7 | 25 | Municipal Bond-High-Yield | 21.9 |
| 7 | Financial Services | 15.7 | 26 | Loan Participation | 21.9 |
| 8 | S&P 500 Index | 15.9 | 27 | US Treasury | 22.0 |
| 9 | Emerging Market Income | 16.3 | 28 | Multi-Sector Bond | 22.5 |
| 10 | Growth & Income | 16.5 | 29 | General Bond-Investment Grade | 23.0 |
| 11 | Equity Income | 16.8 | 30 | General Bond-Short/Intermediate | 23.0 |
| 12 | Utilities | 17.1 | 31 | Municipal Bond-Insured | 23.2 |
| 13 | Convertible Securities | 17.8 | 32 | US Government-Agency | 23.4 |
| 14 | Global Equity | 18.0 | 33 | Global Income | 23.6 |
| 15 | Energy | 18.8 | 34 | Precious Metals | 23.7 |
| 16 | Corp-High Yield | 18.8 | 35 | Municipal Bond-National | 24.1 |
| 17 | Balanced | 19.2 | 36 | Mortgage | 24.2 |
| 18 | Asset Allocation | 19.5 | 37 | US Government-Short/Intermediate | 24.7 |
| 19 | Latin America | 20.0 | 38 | Japan Region | 25.1 |

This report has been compiled by Active Fund Strategies (AFS), using data provided by Thomson Reuters InvestmentView. While it was painstakingly researched, AFS offers no warranty of its accuracy. The report's conclusion represents a good faith judgment of the issue and the findings of the research. It is intended for the educational purposes of licensed investment professionals. If you are viewing this report as an investor, AFS cautions you to seek the advice of an investment professional for proper interpretation of the report, and asks you to note that, with all investment, past performance is no guarantee of future performance and that investment risk is real, to include a possible loss of original capital. Jan-2017