Benefits of Diversification

First Ascent Asset Management

Three Reasons to Diversify

We can't know the future with certainty, so we combine multiple investments in a portfolio.

This has the following benefits:

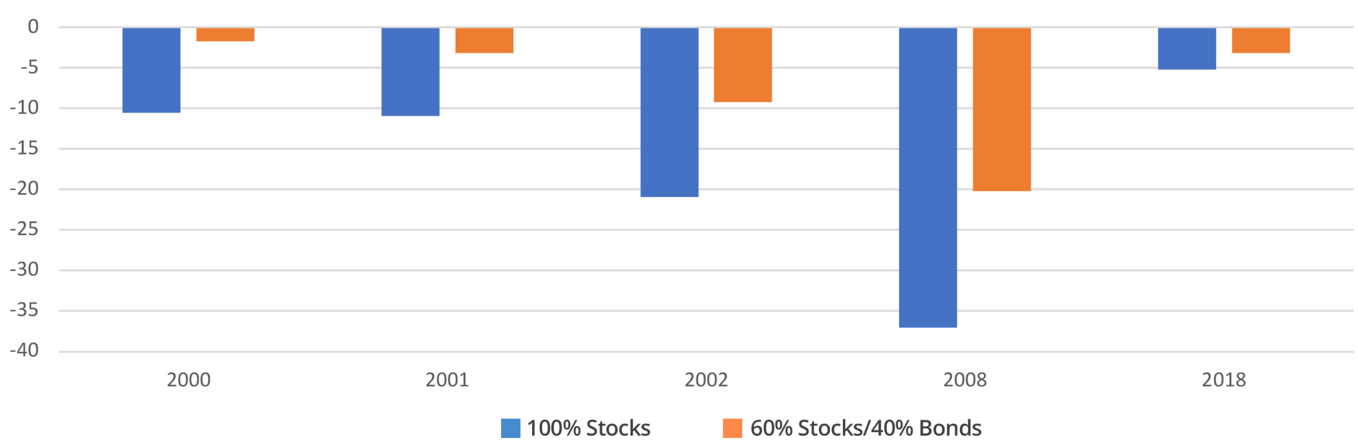
- Risk Control. By putting our eggs in many baskets, we reduce the impact on our portfolio of anything negative happening to any one of them.
- Improved Performance. Research shows that a relatively small number of stocks account for a disproportionate share of the market's returns. By broadly diversifying, we improve the likelihood we will capture those returns by holding the stocks that drive performance.
- Goals-Based Investing. By methodically combining different types of investments in a portfolio we can target specific investment outcomes. This gives us the ability to build portfolios specifically designed to help investors reach their personal investment goals.

How it Works

Between 2000 and 2021, there were five years when the stock market had negative returns. The graphic below shows the performance of two portfolios in those years. Portfolio 1 consists of 100% stocks and Portfolio 2 consists of 60% US stocks/40% US bonds.

Diversification Helps During Difficult Times

2000, 2001, 2002, 2008, 2018



Data source: Morningstar.

You can see that by diversifying among stocks and bonds, Portfolio 2 experienced far smaller declines in value in those difficult years. Portfolio 1 returned 7.73% on an annualized basis over the 2000-2021 period, but Portfolio 2 returned a respectable 6.96% with far less volatility.

The diversified portfolio will not be the highest performing in any given year, but it can produce strong performance with a much smoother ride.