Communiqué

Droms Strauss
Wealth Management

The Beauty of Diversification

We have often written explaining why diversification is so important when designing an investment portfolio…. trying to determine when and in what asset class to invest so you can participate in rising markets and avoid falling markets is, at least in our opinion, a virtual "mission impossible."

With the first month of 2015 now behind us and having watched the "market" decline of over 3% (as measured by the Dow Jones Industrial Average) we thought we would see if diversification was doing what is supposed to do — helping us dampen the impact of a particular asset class decline. Happily, the answer is yes, diversification is doing exactly what we would expect. What you might not have heard in the news is how the bond market or international market performed during the first month of the year. The bond market continues to produce positive returns and the international equity market had its best start to a new year since 1989.

Here's a summary of benchmark returns for January 2015 compared to calendar year 2014 returns:

	January 2015	Calendar Year 2014
Treasury Bills	0.0%	0.1%
Barclays U.S. Aggregate Intermediate Index	1.1%	4.0%
Barclays Muni Bond Index 3-year	0.6%	1.2%
Russell 3000 Index	-2.8%	12.6%
MSCI EAFE International Stock Index	1.0%	-4.9%
MSCI World Real Estate Index	5.9%	14.2%

More importantly, here's how the funds that we own (by asset class) have performed during January (through January 28th): with the single exception of the emerging market bond fund (TCW Emerging Markets Income Fund), every other bond fund we own, both municipal and taxable, have positive returns for January; without any exception, every international fund we own has a positive return; and in the alternative asset class all real estate funds and our infrastructure funds have positive returns with only the energy related MLP tracking fund (JP Morgan Alerian Fund) having a negative return.

The lesson here is that diversification really does work. Last year we would have all liked to avoid international stocks and, had we traded out of the worst performing asset class and moved into U.S. stocks, we would have done so just in time to catch the falling U.S. stock market and miss the rising international market. So, while last year we might have regretted having our international equity exposure, so far this year, we should all be very happy that we have international equities in our investment portfolios.

Sincerely,

Droms Strauss Wealth Management