

# The Importance of Diversification

From year to year, there's no telling which asset classes will be the best performers—a strong argument for portfolio diversification. The chart below ranks the best to worst performing asset classes from top to bottom for the years 2000 to 2009.



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Commodities 31.84%	Small-Cap Value 14.02%	Commodities 25.91%	Small-Cap Growth 48.54%	Real Estate 33.17%	Commodities 21.36%	Real Estate 36.14%	Commodities 16.23%	Long-Term Bonds 24.03%	High Yield Bonds 57.51%
Real Estate 31.04%	Real Estate 12.36%	Unhedged Foreign Bonds 22.99%	Small-Cap Value 46.03%	Small-Cap Value 22.25%	International Stocks 14.01%	International Stocks 26.88%	Large-Cap Growth 11.82%	Unhedged Foreign Bonds 12.00%	Large-Cap Growth 37.21%
Small-Cap Value 22.80%	Interm-Term Bonds 8.44%	Long-Term Bonds 16.79%	International Stocks 39.17%	International Stocks 20.70%	Real Estate 13.99%	Small-Cap Value 23.48%	International Stocks 11.62%	Short-Term Bonds 6.61%	Small-Cap Growth 34.47%
Long-Term Bonds 20.27%	Short-Term Bonds 8.30%	Emerging Market Bonds 13.12%	Large-Cap Value 30.03%	Large-Cap Value 16.49%	Emerging Market Bonds 10.73%	Large-Cap Value 22.21%	Unhedged Foreign Bonds 10.81%	Interm-Term Bonds 5.24%	International Stocks 32.46%
Emerging Market Bonds 14.41%	High Yield Bonds 4.48%	Interm-Term Bonds 10.26%	Large-Cap Growth 29.75%	Small-Cap Growth 14.31%	Large-Cap Value 7.05%	Small-Cap Growth 13.35%	Long-Term Bonds 9.81%	Cash 1.80%	Emerging Market Bonds 28.18%
Interm-Term Bonds 11.63%	Long-Term Bonds 4.21%	Short-Term Bonds 5.76%	High Yield Bonds 28.15%	Unhedged Foreign Bonds 12.04%	Long-Term Bonds 6.50%	High Yield Bonds 11.77%	Short-Term Bonds 7.32%	Emerging Market Bonds -10.91%	Real Estate 28.60%
Short-Term Bonds 8.00%	Cash 4.09%	Real Estate 3.60%	Real Estate 27.75%	Emerging Market Bonds 11.73%	Large-Cap Growth 5.27%	Emerging Market Bonds 9.88%	Small-Cap Growth 7.04%	High Yield Bonds -26.39%	Small-Cap Value 20.58%
Large-Cap Value 7.02%	Emerging Market Bonds 1.36%	Cash 1.70%	Emerging Market Bonds 25.65%	High Yield Bonds 10.87%	Small-Cap Value 4.70%	Large-Cap Growth 9.09%	Interm-Term Bonds 6.97%	Small-Cap Value -28.92%	Large-Cap Value 19.69%
Cash 5.95%	Unhedged Foreign Bonds -3.58%	High Yield Bonds -1.89%	Commodities 23.93%	Commodities 9.15%	Small-Cap Growth 4.15%	Unhedged Foreign Bonds 5.94%	Emerging Market Bonds 6.28%	Commodities -35.65%	Commodities 18.91%
Unhedged Foreign Bonds -2.48%	Large-Cap Value -5.59%	Small-Cap Value -11.42%	Unhedged Foreign Bonds 18.63%	Long-Term Bonds 7.70%	Cash 3.00%	Cash 4.76%	Cash 4.74%	Large-Cap Value -38.85%	Interm-Term Bonds 5.93%
High Yield Bonds -5.12%	Small-Cap Growth -9.23%	Large-Cap Value -15.52%	Interm-Term Bonds 4.10%	Large-Cap Growth 6.30%	High Yield Bonds 2.74%	Interm-Term Bonds 4.33%	High Yield Bonds 2.19%	Large-Cap Growth -38.44%	Unhedged Foreign Bonds 1.90%
International Stocks -13.95%	Commodities -19.51%	International Stocks -15.64%	Long-Term Bonds 2.48%	Interm-Term Bonds 4.34%	Interm-Term Bonds 2.43%	Short-Term Bonds 3.96%	Large-Cap Value -0.17%	Small-Cap Growth -38.54%	Short-Term Bonds 0.78%
Large-Cap Growth -22.43%	Large-Cap Growth -20.42%	Large-Cap Growth -27.89%	Short-Term Bonds 1.90%	Cash 1.24%	Short-Term Bonds 1.67%	Commodities 2.07%	Small-Cap Value -9.77%	Real Estate -39.20%	Cash 0.16%
Small-Cap Growth -22.44%	International Stocks -21.21%	Small-Cap Growth -30.27%	Cash 1.07%	Short-Term Bonds 0.91%	Unhedged Foreign Bonds -9.24%	Long-Term Bonds 1.85%	Real Estate -17.88%	International Stocks -43.38%	Long-Term Bonds -12.93%

Data as of 12/31/09. Past performance is no guarantee of future results. Each Index reflects a group of unmanaged securities. It is not possible to invest directly in an unmanaged index. Diversification does not ensure a profit or eliminate the risks of investing. This chart is not indicative of the past or future performance of any Allianz Global Investors product. Please see other side for additional information. Please see reverse side for explanation of breakdowns.

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## KEY

- Cash represented by the Citigroup 3-month T-Bill Index, an index of three-month Treasury bills.
- Commodities represented by the Dow Jones-UBS Commodity Total Return Index, which is composed of futures contracts on 19 physical commodities.
- Emerging Market Bonds represented by the JPMorgan Emerging Markets Bond Index Global, which tracks total return for U.S.-dollar-denominated debt instruments issued by selected emerging market countries.
- Unhedged Foreign Bonds represented by the JPMorgan Non-U.S. Global Government Bond (Unhedged) Index, which is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.
- High Yield Bonds represented by the Merrill Lynch US High Yield Master II Index, which tracks the performance of below investment grade (BBB), but not in default, US dollar-denominated corporate bonds publicly issued in the domestic market.
- Intermediate-Term Bonds represented by the Barclays Capital Aggregate Index, which is composed of securities from the Barclays Capital Government/Credit Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index. It is representative of the domestic, investment-grade, fixed-rate, taxable bond market.
- Long-Term Bonds represented by the Barclays Capital Long Treasury Index, an index of US Treasury obligations with maturities greater than 10 years.
- Short-Term Bonds represented by the Merrill Lynch 1–3 Year Treasury Index, an index of US Treasury obligations with maturities from 1 to 2.99 years.
- Real Estate represented by the Wilshire REIT Index, which tracks publicly-traded Real Estate Investment Trusts in the US.
- International Stocks represented by the MSCI EAFE Index. The Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East Index (EAFE) is an index of over 900 companies, and is a generally accepted benchmark for major overseas markets.
- Large-Cap Growth Stocks represented by the Russell 1000 Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Large-Cap Value Stocks represented by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Small-Cap Growth Stocks represented by the Russell 2000 Growth Index, which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- Small-Cap Value Stocks represented by the Russell 2000 Value Index, which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.



**A word about risk:** The 13 asset classes listed in the table involve contrasting risk factors. Cash-equivalent investments have fluctuated the least and have been relatively stable. Bond investments fluctuate in value in response to changes in interest rates, with lower-rated bonds possibly being speculative and involving higher risk of default. In an environment where interest rates may trend upward, rising rates will negatively impact most bond funds, and fixed income securities held by a fund are likely to decrease in value. Non-U.S. securities markets involve possibly greater risk of political instability and greater currency risk in addition to having been more volatile. Commodities investments are speculative and involve special risks related to weather and international political and economic developments. Equity investments tend to be volatile, involve risk to principal and, unlike bonds, do not offer a fixed rate of return.

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