

Alternating market leadership is a challenge for investors

Leaders in one year could be losers the next year.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
HIGHEST RETURN	SCG 43.09%	SCV 22.83%	SCV 14.02%	AGG 10.25%	SCG 48.54%	SCV 22.25%	IE 13.54%	IE 26.34%	LCG 11.81%	AGG 5.24%	Converts 49.13%	SCG 29.09%	AGG 7.84%	SCV 18.05%	SCG 43.30%	LCC 13.69%	LCG 5.67%	SCV 31.74%	LCG 30.21%	Cash 1.87%
	Converts 39.56%	AGG 11.63%	AGG 8.44%	Cash 1.78%	SCV 46.03%	IE 20.25%	MCC 12.65%	SCV 23.48%	IE 11.17%	Cash 2.06%	MCC 40.48%	MCC 25.48%	LCG 2.64%	LCV 17.51%	MCC 34.76%	LCV 13.45%	LCC 1.38%	LCV 17.34%	IE 25.03%	Converts 0.15%
	LCG 33.16%	MCC 8.25%	Cash 4.42%	Converts -8.58%	MCC 40.06%	MCC 20.22%	LCV 7.05%	LCV 22.25%	SCG 7.05%	SCV -28.92%	LCG 37.21%	SCV 24.50%	LCC 2.11%	IE 17.32%	SCV 34.52%	MCC 13.22%	AGG 0.55%	MCC 13.80%	SCG 22.17%	AGG 0.01%
	IE 26.96%	LCV 7.01%	Converts -4.44%	SCV -11.43%	IE 38.59%	LCV 16.49%	LCG 5.26%	LCC 15.79%	AGG 6.97%	Converts -35.73%	SCG 34.47%	Converts 16.77%	LCV 0.39%	MCC 17.28%	LCG 33.48%	LCG 13.05%	Cash 0.05%	LCC 11.96%	LCC 21.83%	LCG -1.51%
	LCC 21.04%	Cash 6.18%	LCV -5.59%	LCV -15.52%	LCV 30.03%	SCG 14.31%	LCC 4.91%	MCC 15.26%	MCC 5.60%	LCV -36.85%	IE 31.78%	LCG 16.71%	Cash 0.10%	LCC 16.00%	LCV 32.53%	Converts 9.44%	IE -0.81%	SCG 11.32%	MCC 18.52%	LCC -4.38%
	MCC 18.23%	LCC -9.10%	MCC -5.62%	IE -15.94%	LCG 29.75%	LCC 10.88%	SCV 4.71%	SCG 13.35%	LCC 5.49%	LCC -37.00%	LCC 26.46%	LCV 15.51%	MCC -1.55%	LCG 15.26%	LCC 32.39%	AGG 5.97%	SCG -1.38%	Converts 10.43%	Converts 13.70%	LCV -8.27%
	LCV 7.35%	Converts -10.00%	SCG -9.23%	MCC -16.19%	LCC 28.68%	Converts 9.61%	SCG 4.15%	Converts 12.83%	Cash 5.00%	LCG -38.44%	SCV 20.58%	LCC 15.06%	SCG -2.91%	Converts 14.96%	Converts 24.92%	SCG 5.60%	MCC -2.44%	LCG 7.08%	LCV 13.66%	MCC -9.06%
	Cash 4.85%	IE -14.17%	LCC -11.89%	LCC -22.10%	Converts 27.15%	LCG 6.30%	Cash 3.07%	LCG 9.07%	Converts 4.53%	SCG -38.54%	LCV 19.69%	IE 7.75%	Converts -5.18%	SCG 14.59%	IE 22.78%	SCV 4.22%	Converts -2.99%	AGG 2.65%	SCV 7.84%	SCG -9.31%
LOWEST RETURN	AGG -0.82%	LCG -22.42%	LCG -20.42%	LCG -27.88%	AGG 4.10%	AGG 4.34%	AGG 2.43%	Cash 4.85%	LCV -0.17%	MCC -41.46%	AGG 5.93%	AGG 6.54%	SCV -5.50%	AGG 4.22%	Cash 0.07%	Cash 0.03%	LCV -3.83%	IE 1.00%	AGG 3.54%	SCV -12.86%
	SCV -1.49%	SCG -22.43%	IE -21.44%	SCG -30.26%	Cash 1.15%	Cash 1.33%	Converts 1.01%	AGG 4.33%	SCV -9.78%	IE -43.38%	Cash 0.21%	Cash 0.13%	IE -12.14%	Cash 0.11%	AGG -2.02%	IE -4.90%	SCV -7.47%	Cash 0.33%	Cash 0.86%	IE -13.79%

- **Large-Cap Growth Equities (LCG)** are represented by the Russell 1000 Growth Index, which is an unmanaged index of capitalization-weighted stocks chosen for their growth orientation.
- **Small-Cap Growth Equities (SCG)** are represented by the Russell 2000 Growth Index, which is an unmanaged index of those companies in the Russell 2000 Index chosen for their growth orientation.
- **Large-Cap Value Equities (LCV)** are represented by the Russell 1000 Value Index, which is an unmanaged index of capitalization-weighted stocks chosen for their value orientation.
- **Small-Cap Value Equities (SCV)** are represented by the Russell 2000 Value Index, which is an unmanaged index of those companies in the Russell 2000 Index chosen for their value orientation.
- **Large-Cap Core Equities (LCC)** are represented by the S&P 500 Index, which is an unmanaged index of common stock performance.
- **Mid-Cap Core Equities (MCC)** are represented by the Russell Midcap Index, an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000 Index.
- **Converts** is represented by the ICE BofAML U.S. Convertibles Index, which is an unmanaged index of high-yield U.S. convertible securities.
- **International Equities (IE)** are represented by the MSCI EAFE Index (ND), which is an unmanaged index of international stocks from Europe, Australasia, and the Far East.
- **U.S. Bonds (AGG)** are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, which is an unmanaged index used as a general measure of fixed-income securities.
- **Cash** is represented by the ICE BofAML U.S. 3-month T-Bill Index, which is an unmanaged index used as a general measure for money market or cash instruments.

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Data is historical. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

Reduce risk by diversifying

Over time, diversifying across several asset classes can help manage risk and potentially boost returns. Consider the three scenarios below, illustrating different asset allocation strategies. In each situation, \$10,000 was invested annually from 1998 to 2018. The first scenario shows the results of investing in last year's winner (the best-performing asset class), while the second shows the returns generated by investing in last year's loser (the worst-performing asset class). The third scenario shows the results of an asset allocation plan that consistently invests across several asset classes in equal proportion each year.

CHASING THE LEADERS (Investing in last year's best-performing asset class)



INVESTING WITH THE LOSERS (Investing in last year's worst-performing asset class)



ASSET ALLOCATION IS THE WINNER



The indexes and corresponding alternating market leadership chart represent various investment styles referred to in the three hypothetical scenarios. The asset allocation scenario represents an investment allocated across all nine indexes shown in the chart at left. It is not possible to invest directly in an index. All indexes are unmanaged and measure common sectors of the stock, growth, value, non-U.S., and bond indexes. Mutual fund performance may differ from the performance of the relevant index(es). Past performance does not indicate future results. This analysis has been figured on an annual basis. More recent returns may be lower or higher than those shown.

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Performance results through 12/31/18

	1 year	5 years	10 years
Russell 1000 Growth Index	-1.51%	10.40%	15.29%
Russell 1000 Value Index	-8.27	5.95	11.18
S&P 500 Index	-4.38	8.49	13.12
Bloomberg Barclays U.S. Aggregate Bond Index	0.01	2.52	3.48
Russell 2000 Growth Index	-9.31	5.13	13.52
Russell 2000 Value Index	-12.86	3.61	10.40
MSCI EAFE n-usd	-13.79	0.53	6.32
ICE BofAML U.S. 3-month Treasury Bill Index	1.87	0.63	0.37
Russell Midcap Index	-9.06	6.26	14.03
ICE BofAML U.S. Convertible Index	0.15	5.95	12.21

Source: Putnam Investments.

risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Diversification does not assure a profit or protect against loss. It is possible to lose money in a diversified portfolio. You can lose money by investing in a fund.

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