

Four Reasons Why Diversification Remains a Valid Strategy

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*	Legend
40.4	65.0	29.1	59.9	18.4	74.8	8.1	37.6	35.3	34.8	35.0	66.4	49.7	13.9	32.1	56.3	31.6	34.5	35.1	39.8	5.2	36.2	Emerging-Market Stocks
28.6	38.3	9.0	46.1	17.4	32.9	5.3	37.0	33.9	33.4	28.6	40.9	26.4	8.4	10.3	47.3	26.0	25.6	32.6	32.7	-26.4	29.4	High-Yield Bonds
27.9	34.7	-1.3	41.7	14.9	19.7	3.2	36.6	23.0	28.7	20.3	33.8	11.6	4.5	3.8	39.2	20.7	14.0	26.9	11.6	-33.8	11.5	Growth Stocks
25.0	31.7	-3.1	39.2	14.6	18.9	2.2	28.4	21.9	22.4	13.5	27.3	8.0	2.5	-1.9	37.1	18.3	12.2	22.3	11.4	-36.3	8.4	Developed-Country Stocks
23.6	24.2	-4.4	35.7	11.4	18.7	1.3	20.5	21.6	20.3	8.7	21.3	-3.0	-2.4	-6.0	31.1	17.3	6.9	18.4	7.0	-37.0	6.6	Commodities
16.6	16.3	-8.8	30.5	7.6	16.7	-1.0	20.3	16.5	13.3	3.0	21.0	-5.1	-4.3	-15.2	31.0	16.9	5.2	15.8	5.5	-37.7	3.2	Large-Cap Stocks
13.5	14.5	-10.6	25.4	7.4	10.1	-1.8	18.5	11.3	9.7	-2.5	6.7	-9.1	-11.9	-15.7	28.7	10.9	4.9	11.8	2.2	-38.4	2.6	Small-Cap Stocks
13.4	10.8	-15.4	16.0	5.2	9.7	-1.9	15.3	6.4	2.1	-17.5	2.5	-14.0	-19.6	-20.5	28.1	10.9	4.6	9.5	-1.0	-43.1	1.9	Investment-Grade Bonds
12.0	8.8	-19.5	12.5	4.4	3.7	-2.9	11.6	6.0	-11.6	-25.3	-0.8	-22.4	-21.2	-22.1	20.7	6.9	2.7	4.3	-1.6	-46.5	-3.1	Value Stocks
7.9	2.3	-23.2	-6.1	-11.8	-12.3	-7.3	-5.2	3.6	-14.1	-35.7	-4.6	-30.6	-31.9	-28.0	4.1	4.3	2.4	-15.1	-15.7	-53.2	-12.2	Real Estate Stocks

* 2009 YTD return. You cannot invest directly in an index. See footnotes for index information. Past performance is no guarantee of future results. Source: FMRCo (MARE) as of 6/30/09.

- 1. Massive asset class rotations.** Performance among various asset classes historically has rotated widely from year to year. For example, in 2008, investment-grade bonds (+5.2%) were the top-performing category, but so far in 2009 higher-grade bonds have been among the lagging categories. Meanwhile, emerging-market stocks (36.2%) are on top this year after ending 2008 as the worst-performing group (-53.2%).
- 2. Returns can vary widely.** The magnitude of returns can vary significantly among asset classes in any given year, and even among asset classes that are moving in the same direction. The difference between the best and worst asset class has averaged **51 percentage points** during the past two decades. So far in 2009, U.S. growth stocks have outperformed U.S. value stocks by nearly 15 percentage points.

3. Long-term performance patterns overwhelm short-term divergences.

After most assets fell in 2008, some investors grew skeptical about diversification. During short periods, assets may move more in line with each other, making diversification appear less effective. However, the abrupt shift in 2009 demonstrates the benefits of diversification (i.e. reduced portfolio risk) tend to become apparent over longer-term time horizons.

4. Chasing short-term winners can backfire.

Trying to move in an out of certain assets at just the right time can be challenging. Those who moved aggressively into investment-grade bonds after a solid year in 2008 have experienced relatively weaker returns so far in 2009. Conversely, those who moved out of poor-performing assets in 2008 (e.g. emerging-market stocks and high-yield bonds) may have missed

Provided by Atlantic Financial Inc.

www.atlanticfinancial.com

167 Washington Street, Norwell, MA 02061

Email: questions@atlanticfinancial.com



Footnotes

Diversification does not ensure a profit or guarantee against loss.

All indices are unmanaged and performance of the indices include reinvestment of dividends and interest income, unless otherwise noted, are not illustrative of any particular investment and an investment cannot be made in any index.

Asset classes represented by: **Large Caps** – S&P 500 Index; **Small Caps** – Russell 2000 Index; **Growth** – Russell 3000 Growth Index; **Value** – Russell 3000 Value Index; **Developed Country Stocks** – MSCI EAFE Index; **Emerging Markets** – MSCI Emerging Markets Index; **High Yield** – Merrill Lynch U.S. High Yield Master II Index; **Investment-Grade Bonds** – Barclays Capital Aggregate Bond Index; **Real Estate** – NAREIT Equity-Only Index; **Commodities** – S&P GSCI Commodity Index.

Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rate rise, bond prices usually fall and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments. Additionally, bonds and short-term investments entail greater inflation risk, or the risk that the return of an investment will not keep up with increases in the prices of goods and services, than stocks.

Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

The Russell 3000 Index offers investors access to the broad U.S. equity universe representing approximately 98% of the U.S. market. The Russell 3000 is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. The Russell 3000® Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index is an unmanaged index and measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Index is a market capitalization-weighted index of smaller company stocks. The Russell 2000 Value and Growth indexes are market capitalization-weighted indexes of smaller value and smaller growth companies, respectively.

The Morgan Stanley Capital InternationalSM (MSCI[®]) Europe, Australasia, Far East Index (EAFE), an unmanaged market-capitalization-weighted index, is designed to represent the performance of developed stock markets outside the United States and Canada. MSCI Europe Index is a market capitalization weighted index of over 550 stocks traded in 14 European markets. The MSCI[®] Emerging Markets (EM) Free Index is a market capitalization weighted index of over 850 stocks traded in 22 world markets.

S&P GSCI Commodities Index is a world-production-weighted index composed of 24 widely traded commodities.

The Merrill Lynch High-Yield Bond Master II Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

NAREIT Equity-Only Index. The unmanaged National Association of Real Estate Investment Trusts (NAREIT) Equity Index is a market-value-weighted index based upon the last closing price of the month for tax-qualified REITs listed on the NYSE.

The Barclays Capital[®] (BC) Aggregate Bond Index is an unmanaged market-value-weighted performance benchmark for investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year.

The S&P 500[®], a market capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation.

Fidelity Investments Institutional Services Company, Inc., 82 Devonshire Street, Boston, MA 02109. 528169.1.0