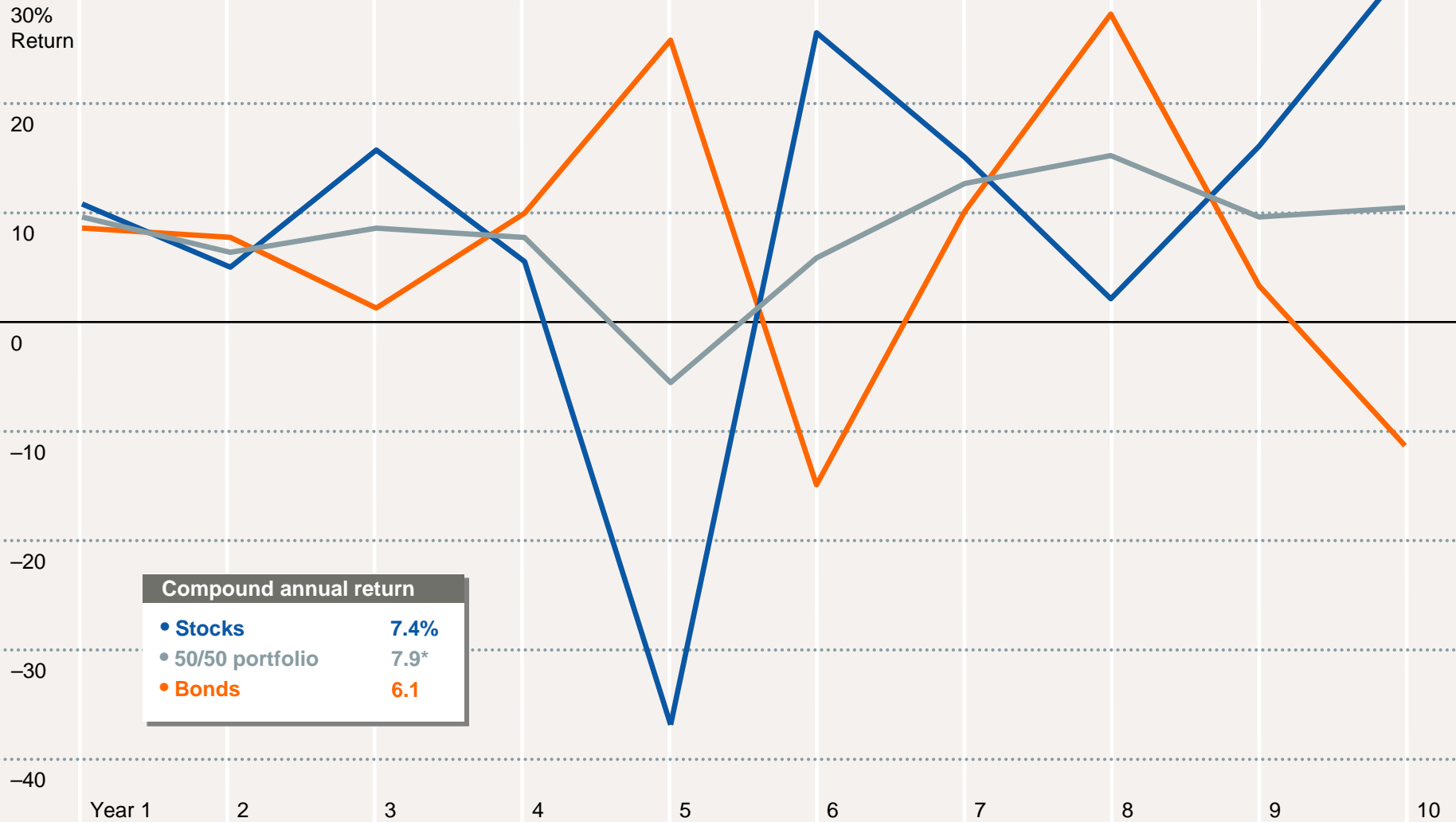


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# Portfolio Diversification and Performance

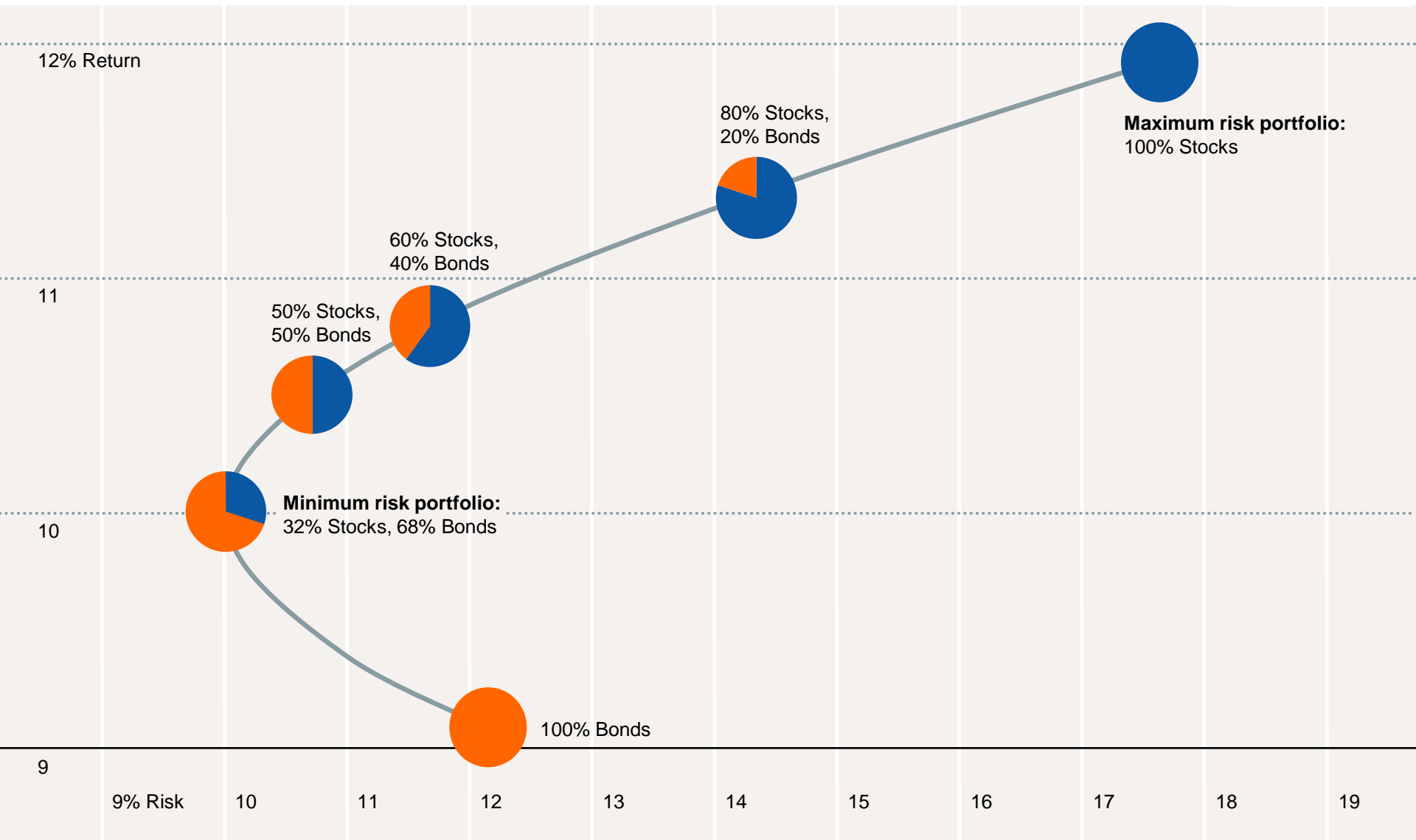
# The Case for Diversifying 2004–2013



**Past performance is no guarantee of future results.** \*The return of the portfolio is higher than the returns of the constituent asset classes due to a phenomenon called “the rebalancing bonus,” which occurred due to the unusual behavior of stocks and bonds over the time period analyzed. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

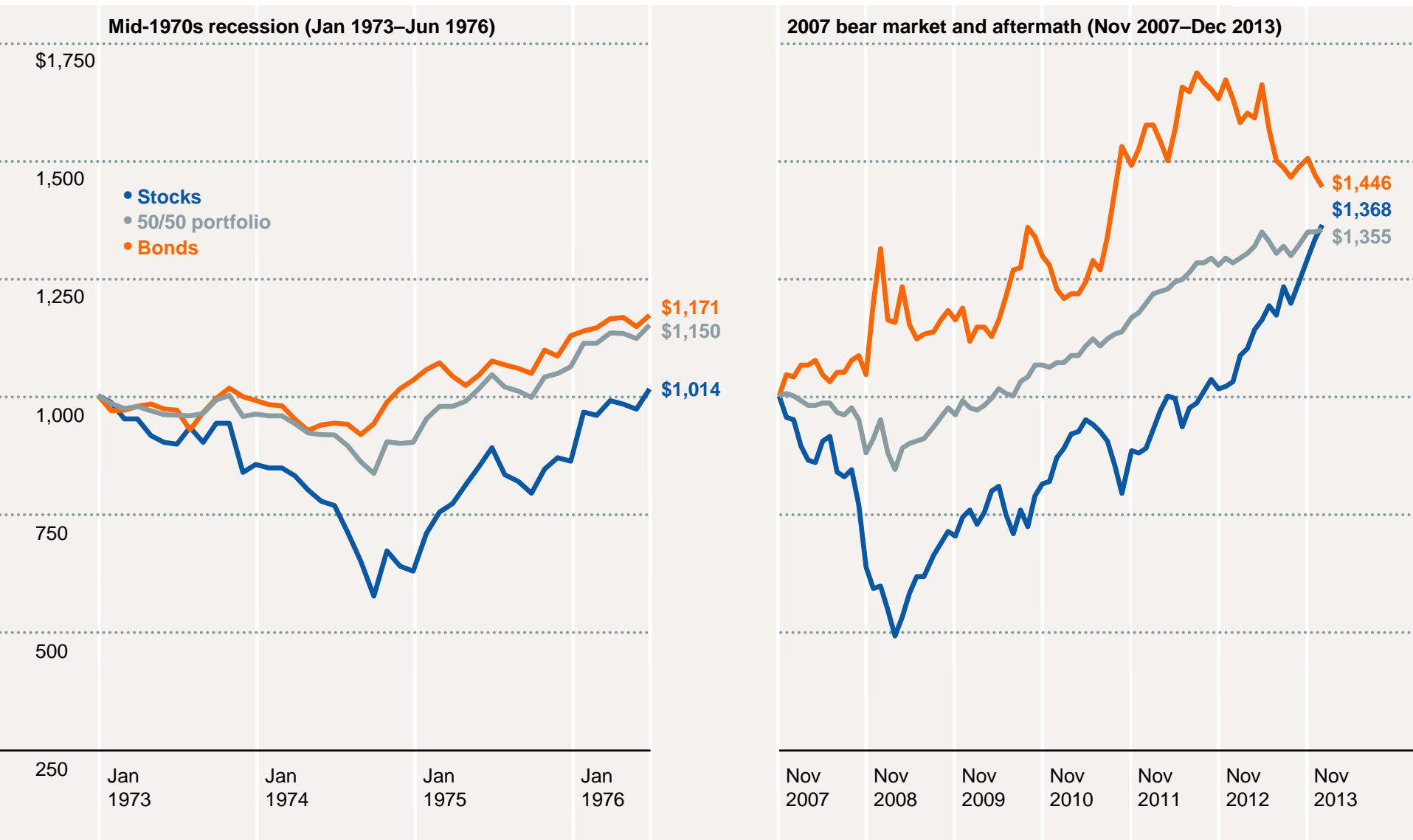
# Stocks and Bonds: Risk Versus Return

1970–2013



# Diversified Portfolios in Various Market Conditions

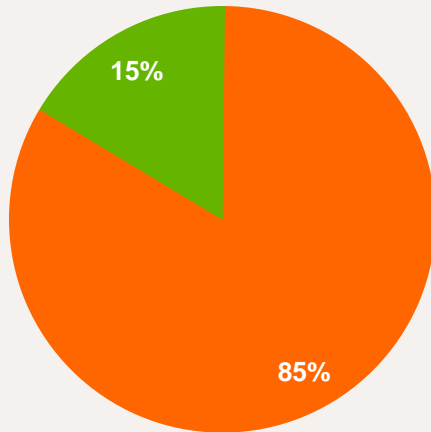
## Performance during and after select bear markets



**Past performance is no guarantee of future results.** Diversified portfolio: 35% stocks, 40% bonds, 25% Treasury bills. Hypothetical value of \$1,000 invested at the beginning of January 1973 and November 2007, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

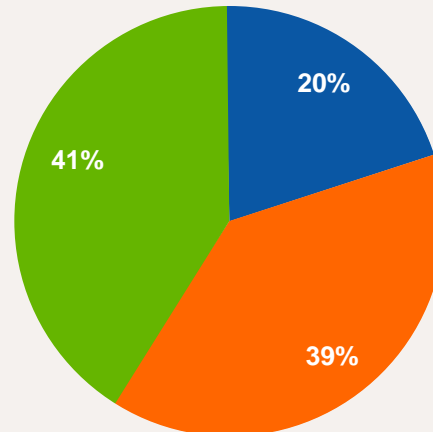
# Potential to Reduce Risk or Increase Return 1970–2013

Fixed income portfolio



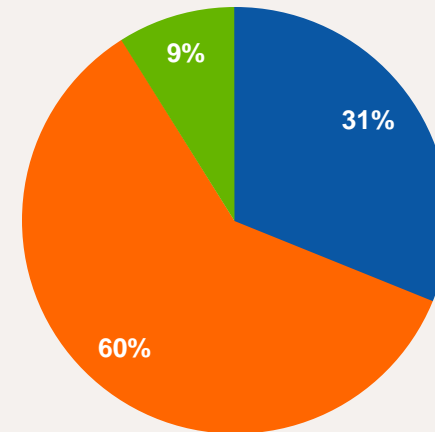
Return: 7.7%  
Risk: 7.9%

Lower risk portfolio



Return: 7.7%  
Risk: 5.5%

Higher return portfolio



Return: 9.0%  
Risk: 7.9%

- Stocks
- Bonds
- Cash

# Correlation Can Help Evaluate Potential Diversification Benefits

## Asset-class correlation 1926–2013



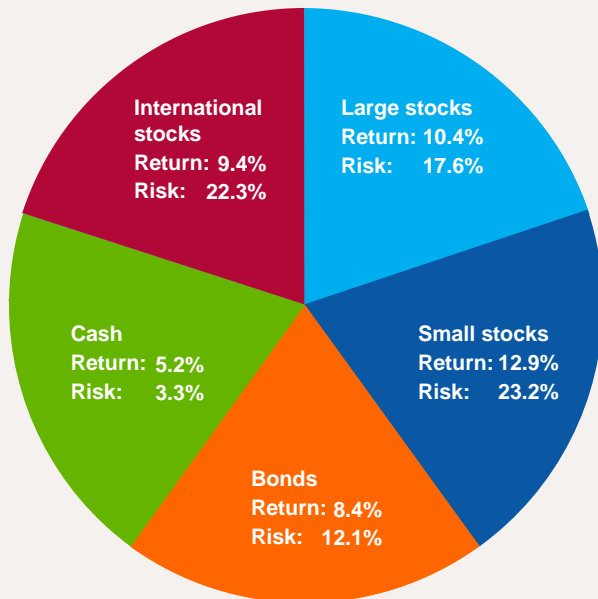
	Small stocks	Large stocks	LT corporate bonds	LT gov't bonds	IT gov't bonds	Treasury bills
Small stocks	1.00					
Large stocks	0.80	1.00				
LT corporate bonds	0.05	0.14	1.00			
LT gov't bonds	-0.10	-0.01	0.89	1.00		
IT gov't bonds	-0.12	-0.03	0.87	0.89	1.00	
Treasury bills	-0.10	-0.02	0.17	0.20	0.46	1.00

**Past performance is no guarantee of future results.** Correlation ranges from -1 to 1, with -1 indicating that the returns move perfectly opposite to one another, 0 indicating no relationship, and 1 indicating that the asset classes react exactly the same. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

# A Diversified Portfolio: Sum of the Parts

## Risk and return characteristics

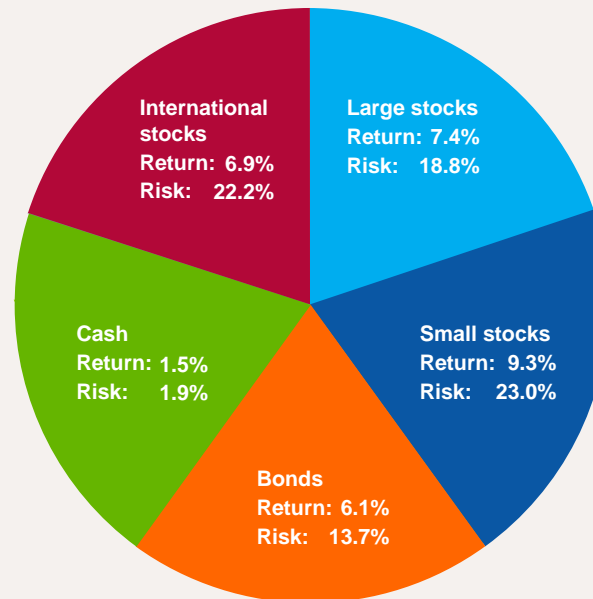
1970–2013



**Total portfolio**

Return: 10.1%  
Risk: 10.9%

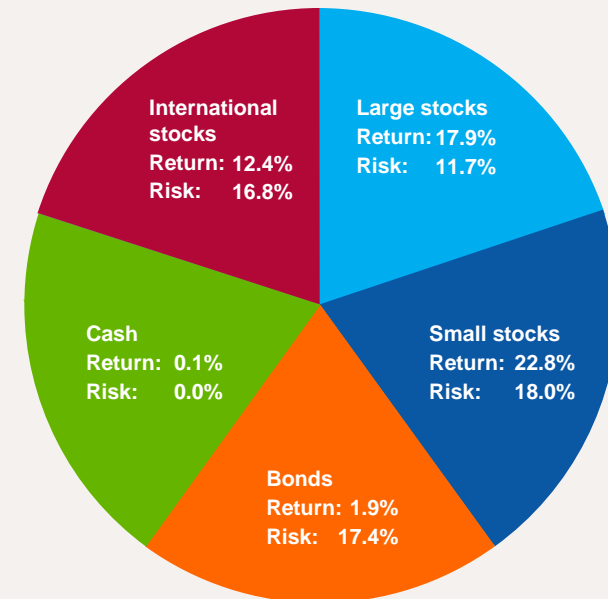
Past 10 years  
2004–2013



**Total portfolio**

Return: 7.3%  
Risk: 10.1%

Past 5 years  
2009–2013



**Total portfolio**

Return: 11.7%  
Risk: 5.5%

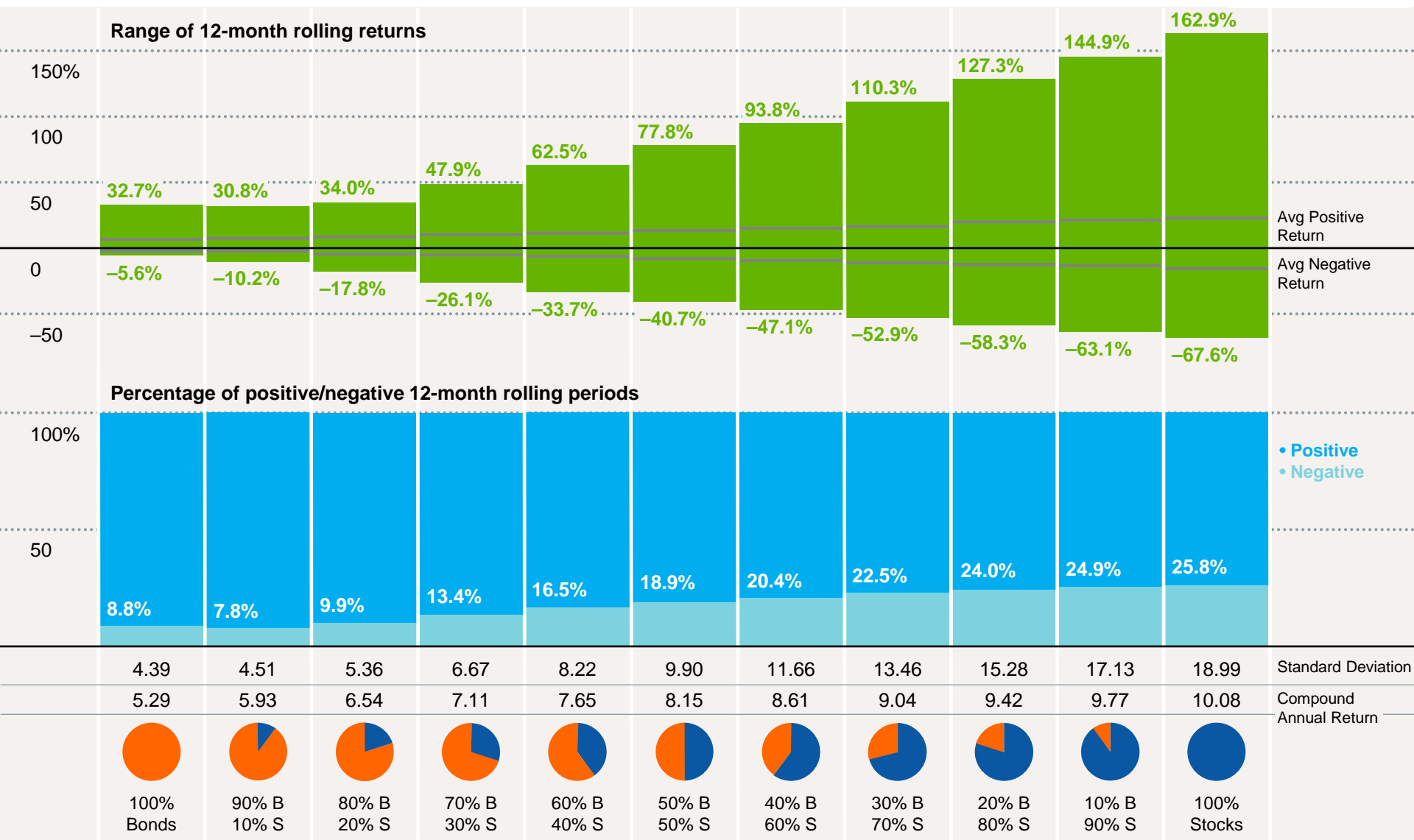
# Asset-Class Winners and Losers

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Highest return	8.1%	37.6	23.0	33.4	28.6	29.8	21.5	22.8	17.8	60.7	20.7	14.0	26.9	11.6	25.9	32.5	31.3	28.2	18.2	45.1
	3.9	34.5	17.6	22.8	20.3	27.3	5.9	3.8	1.6	39.2	18.4	7.8	16.2	9.9	1.6	28.1	15.1	3.1	17.9	32.4
	3.1	31.7	10.2	15.9	13.1	21.0	0.1	3.7	-6.3	28.7	11.9	7.1	15.8	5.5	-17.9	26.5	13.0	2.1	16.0	23.3
	1.7	24.2	6.4	15.9	11.9	14.8	-3.6	-0.6	-13.3	26.2	10.9	5.7	13.0	5.3	-36.7	14.4	10.1	0.0	11.1	17.9
	1.3	11.6	5.2	5.3	4.9	4.7	-9.1	-11.9	-15.7	1.4	8.5	4.9	4.8	4.7	-37.0	0.1	8.2	-3.3	3.3	0.0
Lowest return	-7.8	5.6	-0.9	2.1	-7.3	-9.0	-14.0	-21.2	-22.1	1.0	1.2	3.0	1.2	-5.2	-43.1	-14.9	0.1	-11.7	0.1	-11.4

• Small stocks
• Large stocks
• International stocks
• Long-term government bonds
• Treasury bills
• Diversified portfolio

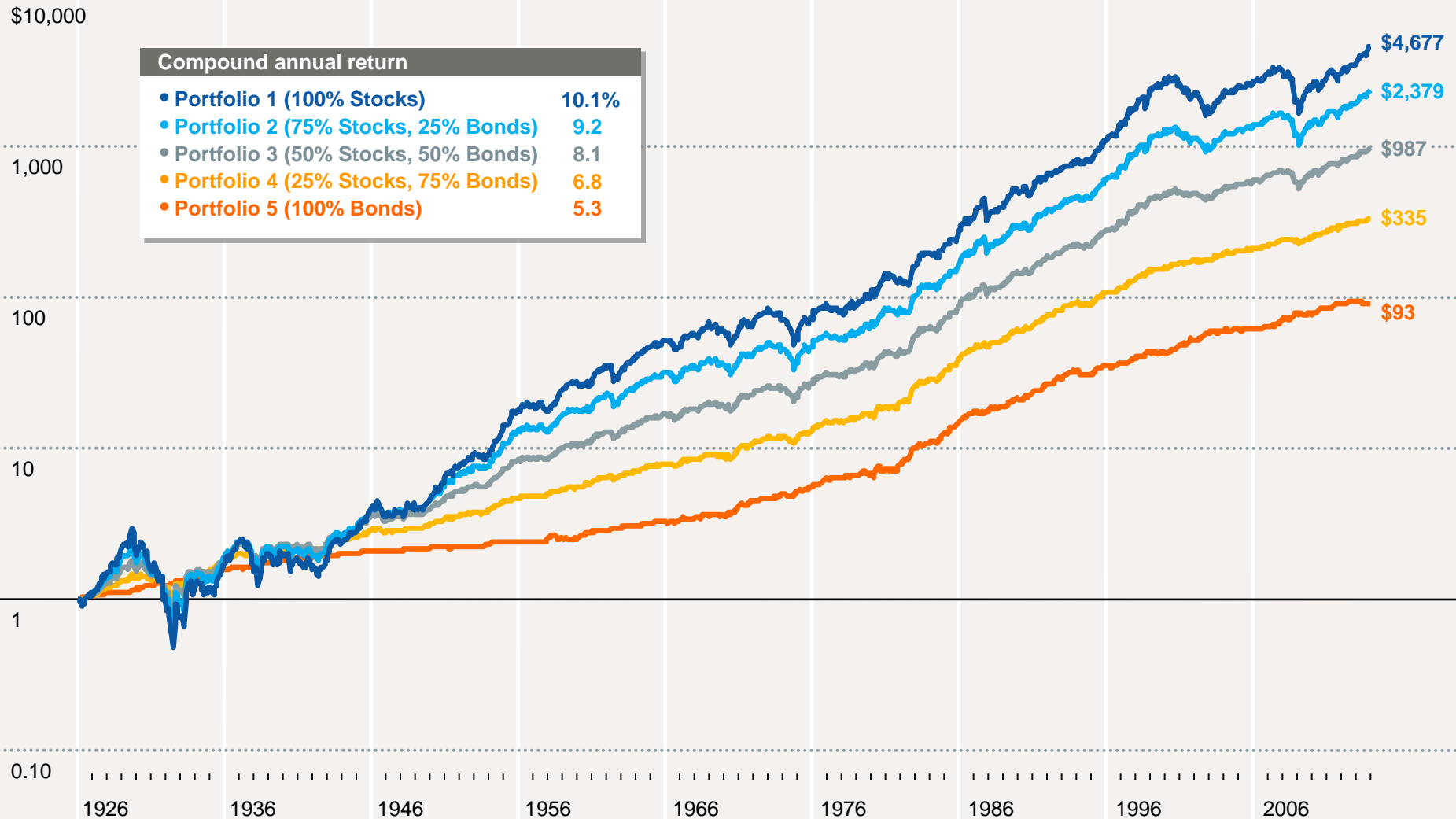


# Hypothetical Portfolio Performance 1926–2013



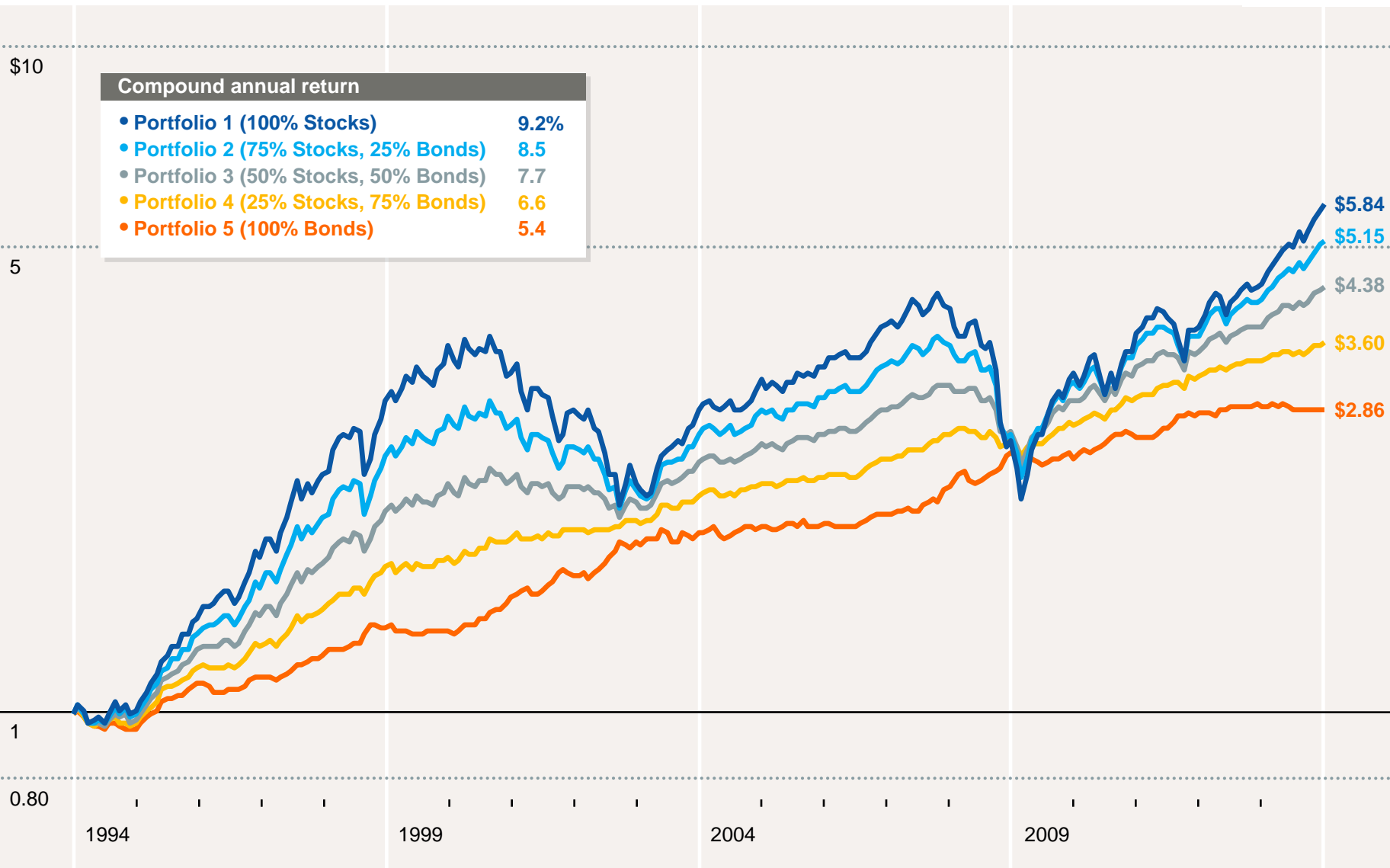
**Past performance is no guarantee of future results.** This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. The information, data, analyses, and opinions contained herein do not constitute investment advice offered by Consilium Wealth Advisory, LLC and are provided solely for informational purposes. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

# Long-Term Portfolio Performance 1926–2013



**Past performance is no guarantee of future results.** Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

# 20-Year Portfolio Performance 1994–2013


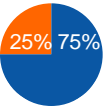

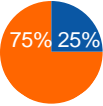



Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1994. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

# Portfolio Summary Statistics

Rolling periods 1926–2013



		12-month holding period			60-month			120-month		
	Average return	Highest return	Lowest return	Negative periods	Highest return	Lowest return	Negative periods	Highest return	Lowest return	Negative periods
	<b>10.1%</b>	162.9%	-67.6%	25.8%	36.1%	-17.4%	13.0%	21.4%	-4.9%	5.7%
	<b>9.2%</b>	118.7%	-55.7%	23.3%	29.0%	-11.5%	7.6%	17.7%	-1.3%	1.0%
	<b>8.1%</b>	77.8%	-40.7%	18.9%	22.2%	-6.1%	4.8%	16.2%	1.5%	0.0%
	<b>6.8%</b>	40.9%	-22.0%	11.3%	20.0%	-1.2%	0.3%	14.9%	3.3%	0.0%
	<b>5.3%</b>	32.7%	-5.6%	8.8%	19.5%	0.7%	0.0%	13.7%	1.2%	0.0%

• Stocks

• Bonds

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# Diversification May Lessen the Impact of Market Swings



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Highest return	21.0	12.6	7.6	12.9	28.7	10.9	4.9	15.8	10.1	13.1	26.5	15.1	9.5	16.0	32.4
	15.3	7.2	2.7	4.2	22.1	8.7	4.0	12.6	8.9	0.6	19.2	13.1	7.6	12.5	24.0
	9.6	1.7	-2.1	-4.6	15.5	6.6	3.1	9.5	7.8	-11.9	12.0	11.1	5.8	9.0	15.7
	3.9	-3.7	-7.0	-13.3	9.0	4.4	2.2	6.3	6.6	-24.5	4.8	9.1	3.9	5.6	7.3
Lowest return	-1.8	-9.1	-11.9	-22.1	2.4	2.3	1.4	3.1	5.5	-37.0	-2.4	7.1	2.1	2.1	-1.1

• **Portfolio 1**  
(100% Stocks)

• **Portfolio 2**  
(75% Stocks, 25% Bonds)

• **Portfolio 3**  
(50% Stocks, 50% Bonds)

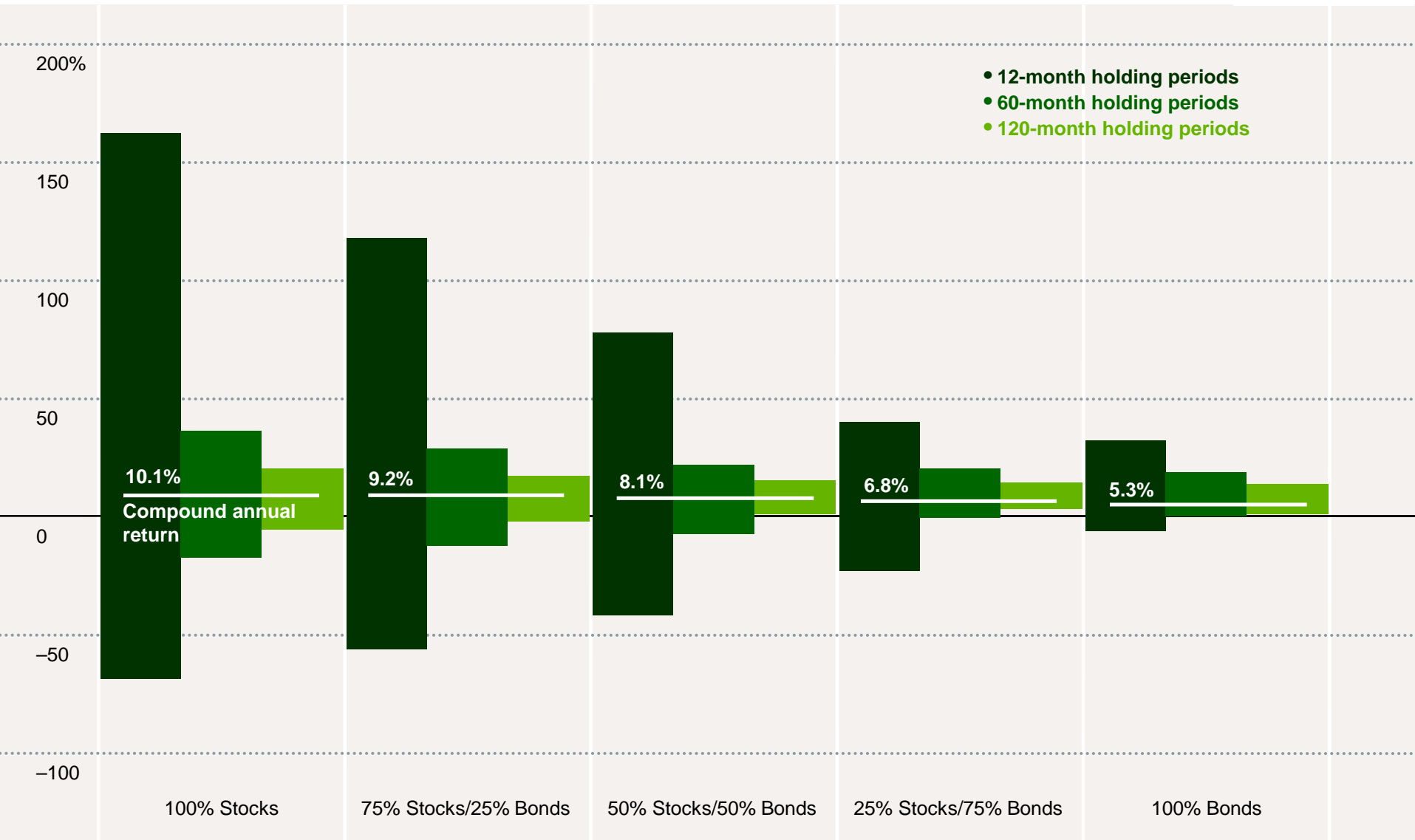
• **Portfolio 4**  
(25% Stocks, 75% Bonds)

• **Portfolio 5**  
(100% Bonds)

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# Portfolio Risk Appears to Diminish Over Time

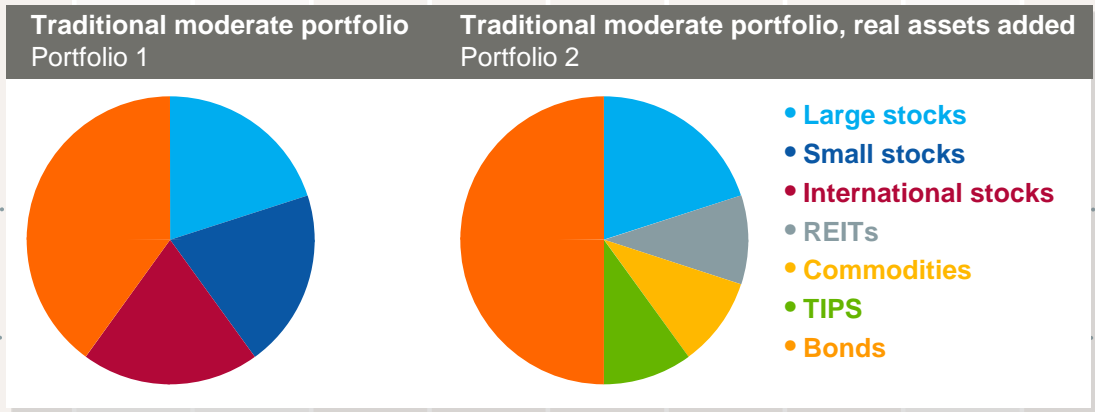
## 1926–2013



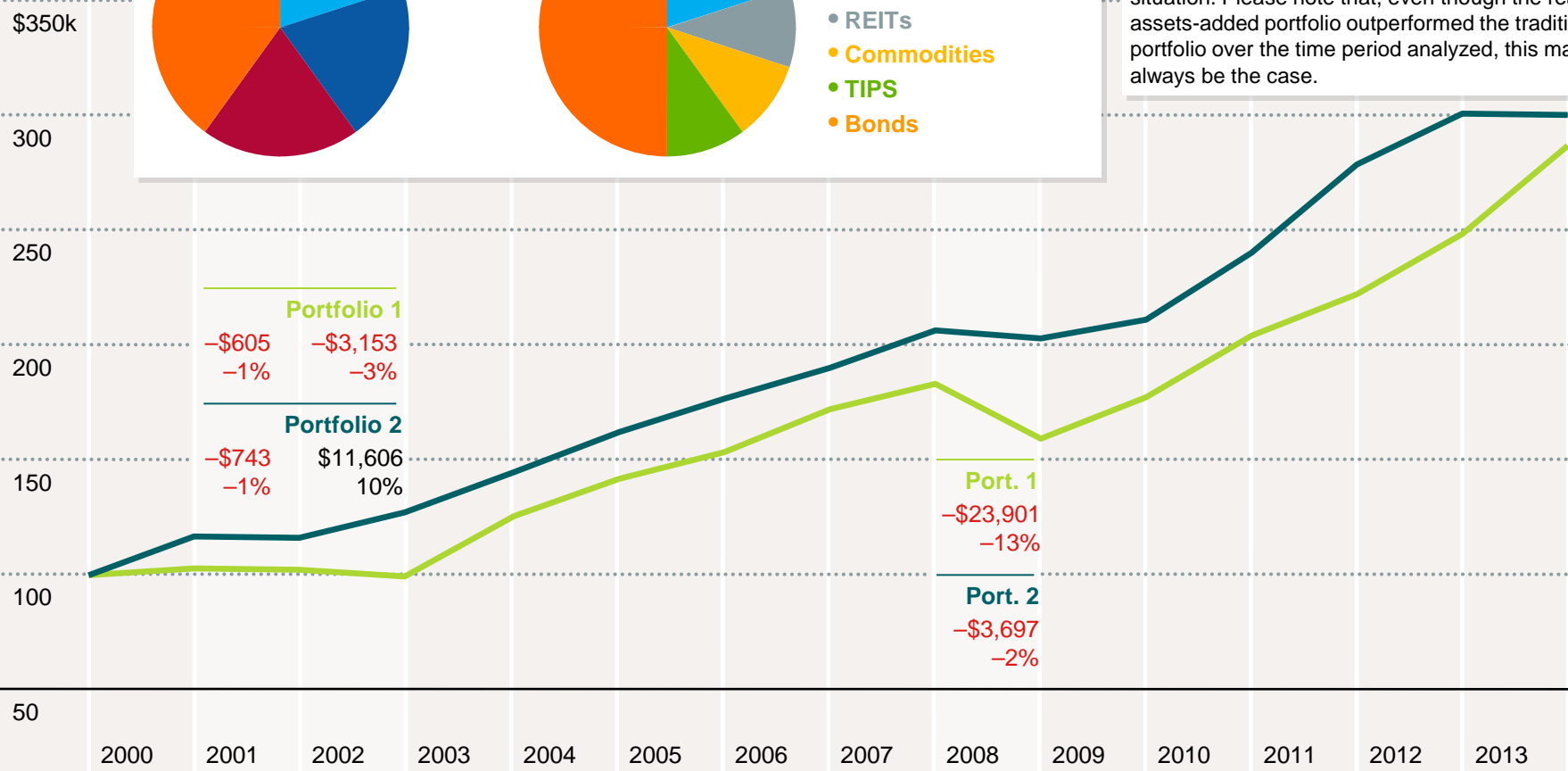
Past performance is no guarantee of future results. Each bar shows the range of rolling returns for each asset class over the period 1926–2013. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.

# Enhancing Diversification Using Real Assets

## Annual returns



**Disclosure**  
 Diversification does not eliminate the risk of experiencing investment losses. The two portfolios are for illustrative purposes only and do not represent investment advice; consult a financial professional for investment advice specific to your situation. Please note that, even though the real-assets-added portfolio outperformed the traditional portfolio over the time period analyzed, this may not always be the case.



Portfolio 1	
-\$605	-\$3,153
-1%	-3%

Portfolio 2	
-\$743	\$11,606
-1%	10%

Port. 1	
-\$23,901	-13%

Port. 2	
-\$3,697	-2%

**Past performance is no guarantee of future results.** Hypothetical value of \$100,000 invested at the beginning of 2000. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Highlighted areas represent years when Portfolio 1 experienced losses. © 2014 Consilium Wealth Advisory, LLC. All Rights Reserved.