Wall Street woes and an unpredictable economy sometimes rattle even the most confident investors. Here is some information on managing your investment strategy during market fluctuations.

**Time, not timing, is key**
Predicting the market is not like predicting the weather. There are no high-tech gadgets or radar systems to predict the highs and lows that may lie ahead. Without knowing the exact moment to buy or sell, it is easy to miss the market, which could prove costly. Sticking to an investment strategy can keep your returns in line with long-term market performance. However, past performance doesn’t guarantee or predict future returns.

**Asset allocation**
Asset Allocation is a strategy that spreads your investment options around, seeking to take advantage of the potential features that stocks, bonds and other asset classes may offer. Although asset allocation cannot assure a profit or protect against loss, it can help you design a plan to reach your goals. According to one landmark study, the largest determining factor, responsible for 92% of a portfolio’s total return, was the asset allocation decision.


**Asset allocation vs. Diversification**

**Diversification**
A risk management technique that mixes a wide variety of investment options within a portfolio. It is designed to help reduce the impact of any one security on overall portfolio performance.

**Asset allocation**
The process of dividing a portfolio among major asset categories, such as bonds, stocks, or cash. The purpose of asset allocation is to help reduce risk by diversifying the portfolio.
What does history tell us about the market?

Historically, when one asset class falls out of favor with investors, generally another takes its place. For instance, when stocks drop, domestic equities may emerge as winners. When stocks fall, bonds may rise. This diagram below shows two decades worth of the top performing asset classes moving in and out of favor. Rarely does the same asset class occupy the top slot two years in a row.

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<td>2005</td>
<td>U.S. Fixed Income</td>
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<td>2.74%</td>
<td>8.16%</td>
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<td>-4.21%</td>
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<td>2006</td>
<td>Non-U.S. Equity</td>
<td>-0.83%</td>
<td>-11.89%</td>
<td>-20.48%</td>
<td>4.10%</td>
<td>4.43%</td>
<td>4.85%</td>
<td>3.40%</td>
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<td>-12.11%</td>
<td>4.95%</td>
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<td>2007</td>
<td>Non-U.S. Equity</td>
<td>-21.40%</td>
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<td>-4.32%</td>
<td>14.49%</td>
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Source: The Callan Periodic Table of Investment Returns 2019
Past performance does not guarantee future results.
Performance shown is historical and not indicative of any Voya Fund. Index performance does not reflect management fees or expenses associated with investing in mutual funds. Indexes are not actively managed.

Large Cap Equity ($ & P S&P 500), Small Cap Equity (Russell 2000), Non-U.S. Equity (MSCI World ex USA), Emerging Market Equity (MSCI Emerging Markets), U.S. Fixed Income (Bloomberg Barclays US Aggregate Bond Index), High Yield (Bloomberg Barclays High Yield Bond Index), Non-U.S. Fixed Income (Bloomberg Barclays Global Aggregate ex US Bond Index), Real Estate (FTSE EPRA/NAREIT Developed REIT Index), Cash Equivalent (3-month Treasury Bill).

Investors cannot invest directly in an index.

Rebalancing

Investors may wish to review their asset allocation strategy on a regular basis. Any gains experienced in one investment can skew an investor’s portfolio to the point where it’s more aggressive than originally intended, or vice versa. Periodic portfolio rebalancing helps keep it in check with the investor’s objectives.
Investors sometimes try to outguess the market by choosing to invest in the previous year’s best performers. Investors may also be tempted to try to outguess the market by choosing to invest in the previous year’s best performers. The chart above demonstrates that trying to pick “Winners” and outguessing the market rarely pays off.

General risk(s) to investments

**Domestic Equity:** Exposure to financial and market risks that accompany investments in equities. Markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Small cap stocks may be more volatile and less liquid than stocks of larger more established companies.

**Fixed Income:** Exposure to financial, market, prepayment, credit and interest rate risks. The value of an investment in a fund is not guaranteed and will fluctuate. Higher-yielding bonds are subject to greater volatility and credit risks. A fund may invest in securities guaranteed by the U.S. Government as to timely payment of interest and principal, but a fund’s shares are not insured or guaranteed. Bonds have fixed principal and return if held to maturity, but may fluctuate in the interim. Generally, when interest rates rise, bond prices fall. Bonds with longer maturities tend to be more sensitive to changes in interest rates.

**International:** In addition to the general risks of investing in equities and fixed income securities, investing in foreign securities poses special risks, including currency fluctuation, economic and political risks not found in investments that are solely domestic. Risks of foreign investing are generally intensified for investments in emerging markets.

**REITs:** Real Estate Investment Trusts may be sensitive to factors such as changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and credit-worthiness of the issuer. REITs may also be affected by tax and regulatory requirements.

**Callan’s Periodic Table of Investment Returns 1999–2018**

Callan’s Periodic Table of Investment Returns depicts annual returns for 8 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry-standard market indices that we use as proxies for each asset class in the text below.

- **Large Cap Equity (S&P 500)** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks. The weightings make each company’s influence on the Index performance directly proportional to that company’s market value.

- **Small Cap Equity (Russell 2000)** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.

- **Non-U.S. Equity (MSCI World ex USA)** is an international index that is designed to measure the performance of large and mid cap equities in developed markets in Europe, the Middle East, the Pacific region, and Canada.

- **Emerging Market Equity (MSCI Emerging Markets)** is an international index that is designed to measure the performance of equity markets in 24 emerging countries around the world.

- **U.S. Fixed Income (Bloomberg Barclays US Aggregate Bond Index)** includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.

- **High Yield (Bloomberg Barclays High Yield Bond Index)** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody’s, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

- **Non-U.S. Fixed Income (Bloomberg Barclays Global Aggregate ex US Bond Index)** is an unmanaged index that is comprised of several other Bloomberg Barclays indices that measure the fixed income performance of regions around the world, excluding the U.S.

- **Real Estate (FTSE EPRA/NAREIT Developed REIT Index)** is designed to measure the stock performance of companies engaged in specific real estate activities in the North American, European, and Asian real estate markets.

- **Cash Equivalent (3-month Treasury Bill)** is a short-term debt obligation backed by the Treasury Department of the U.S. government with a maturity of less than one year.
Callan’s Periodic Table Marks a Milestone in Its History

For the first time in the history of Callan’s Periodic Table of Investment Returns, stretching back to 1979, the best-performing asset class in 2018 returned essentially zero! It is an unusual year when virtually all broad asset classes post negative returns. Rising interest rates hit fixed income, while a sell-off in the fourth quarter dinged equity returns around the globe. Cash—the riskfree alternative—was positive, up 1.87%. A selection of bond market segments (government bonds, mortgages, asset-backed securities, and municipal bonds) generated positive returns, but the broad fixed income market returned 0.01%. Volatility returned to the global equity markets in 2018, following several years of below-average readings during which the return to U.S. equity trended up strongly. This recent volatility, which is not remarkable from a historical standpoint, could well be a harbinger of 2019 market performance given a wide array of economic, political, and market-related uncertainties that are currently vexing investors. Callan has long advised clients that adherence to an appropriate and well-defined asset allocation (including periodic rebalancing!) remains the best course of action to manage the path to successful attainment of long-term investment goals.

Additional information

While each of these investment strategies can be useful to investors, they can’t assure nor guarantee better performance and they can’t protect against loss in declining markets.

Monitoring the market during fluctuations and being aware of risk management strategies can help investors choose whether to stay the course as they work toward their retirement objectives.

Callan

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