



Diversify to defend against portfolio drawdowns

Joshua Kutin, Head of Asset Allocation, North America



Your success. Our priority.

Diversification is always a good idea. There's always going to be risk in markets, you never know exactly what's going to happen.

Often people ask, "When does diversification work, when does diversification not work?" I think one of the ironies is that diversification sometimes doesn't work when things are going great, when things are going really well, when markets are going straight up, like they did for a lot of 2017 and the first 3 quarters of 2018. You don't necessarily need as much diversification, because stocks are going straight up. But it's when things start to fall apart a little bit, there's more volatility, there's more uncertainty, that's when you want to make sure that your portfolios are as diversified as possible.

And that applies across asset classes, it applies within asset classes. So if you're going to have equity, stocks in your portfolio, make sure to have global stocks, not just domestic stocks. Make sure to have emerging market stocks, not just developed stocks.

In a fixed income portfolio, make sure to have treasuries, make sure to have investment-grade corporates, high-yield corporates, emerging market debt, inflation-linked bonds, as many different asset classes as you possibly can. And then even beyond traditional equity and fixed income assets, look for ways to include commodities, look for ways to include real estate, look for ways to include alternatives.

"What's the point of all this? One of the main points of this, I believe, is to avoid drawdowns. You can look at the stock market over the long-run, and say, "This is a great place to put my money, it just goes up, up, up, up, up." But what's going to happen eventually is that it's going to come down. And that's when we're going to start to see the impact of draw-downs.

The more that you can diversify into different areas, the more that you can mitigate against those draw-downs.

The views expressed are as of December 2018, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

A "drawdown" refers to a decline in the value of an investment or portfolio.

Diversification does not assure a profit or protect against loss.

Investment products are not federally or FDIC-insured, deposits or obligations of or guaranteed by any financial institution and involve risks, including possible loss of principal and fluctuation in value.

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

©2019 Columbia Management Investment Advisers, LLC. All rights reserved.

2408158