The Power of Diversification

Portfolios Rebalanced Quarterly:
January 1982–December 2015

	Portfolio 1	Portfolio 2	Portfolio 3
One-Year US Treasury Note Index	40%	40%	40%
MSCI EAFE Index (net div.)	24%	12%	6%
S&P 500 Index	36%	18%	9%
CRSP 9-10 Index		18%	9%
DFA International Small-Cap Index		12%	6%
MSCI EAFE Value Index (net div.)			6%
DFA US Small-Cap Value Index			9%
DFA US Large-Cap Value Index			9%
DFA International Small-Cap Value Index			6%
Performance			
Annualized Return	8.8%	9.3%	10.0%
Annual Standard Deviation	10.7%	11.4%	11.5%
Growth of $1	$17.31	$20.34	$25.20
Sharpe Ratio[1]	0.51	0.51	0.58

A diversified portfolio can provide higher expected returns without a significant increase in risk.

[1] The Sharpe Ratio is a measure of the risk-adjusted return of an investment. A higher ratio indicates a greater return for a unit of risk. The Sharpe Ratio is calculated as the average annual portfolio return less the average annual risk-free rate (One-month T-bills) divided by the portfolio's annualized standard deviation.

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