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WEALTH MANAGEMENT, LLC

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The Dark Side of Diversification

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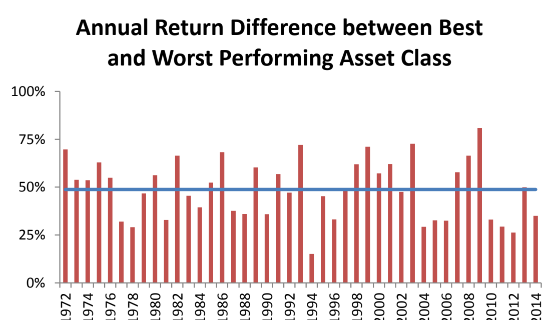
Investing pundits have written volumes of literature on the topic of diversification since Harry Markowitz first formally articulated the concept in his seminal 1952 paper on Modern Portfolio Theory (MPT).[1] Over the years I've spent a lot of time writing about diversification myself and am guilty of adding a volume or two of my own to the current library of literature — for better or for worse.

Diversification is one of the few investment strategies out there that I feel actually works and warrants all the press. Unfortunately, most writers, me included, focus their banter on all of the benefits of diversification and skip over what I call the "dark side" of diversification, or the unfavorable side effect of holding a globally diversified portfolio.



Source: Morningstar Direct 2015

Let me illustrate what I mean using the chart above, which shows the difference in return between the highest returning asset class and lowest returning asset class. You can see that the return difference between the top and bottom performer each year has been quite large at times, as was the case in 2009 when Emerging Markets outpaced 5-Year Treasuries by 80.9 percentage points.

Over the last 43 years the average spread between the top asset class and the bottom asset class has been almost 50 percentage points. That means a truly diversified portfolio will hold some real dogs. Take 2007, for example, when the Emerging Markets asset class was up 39% and US Small Value was down 18%.

Most of us who were holding US Small Value at that time felt regret because we hate holding losers. Hindsight is 20/20 as they say and we probably tried convincing ourselves that we (or our advisor) should have known that Emerging Markets would be the winner and US Small Value would be the loser. The truth is it's impossible to know beforehand which asset classes will do well and which will be in the doghouse. Returns are random and unpredictable from year to year, but it's the uncertainty of random fluctuation that allows investors to reap positive returns over the long term. The uncertainty of yearly asset class fluctuations is the price paid for long-term growth.

Speaking of long-term growth, the US Small Value asset class may have been the dog in 2007 but over the last 43 years it's been the top performing asset class, earning over 14.5% per year. Even though it was a dog one year it is still an asset class to consider for your portfolio.

When you have a truly diversified portfolio you will hold losers. In fact, if all of the holdings in your portfolio are winners your portfolio may not be properly diversified. But don't let the performance tail wag the investing dog because losers often become winners in subsequent periods. Successful investing is not market focused and performance driven. Successful investing is goal focused and planning driven. Remember that and you are more likely to reach your investment goals.

[1]Markowitz, Harry, Portfolio Selection, The Journal of Finance, Vol. 7, No. 1. (Mar., 1952), pp. 77-91.

Take Better Selfies with your iPhone's Rear Camera with the SelfieX App

TECHNOLOGY PERSONALIZED

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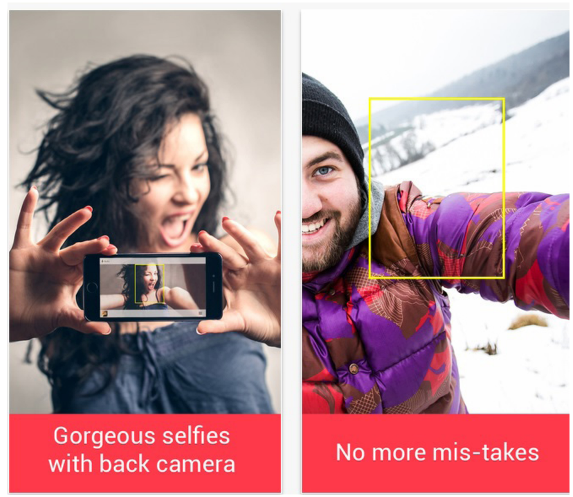
The front camera of a smartphone is meant for taking selfies, and we've seen OEMs releasing new products with better and better front snappers. However, in most of the cases, the rear camera is still the best one you have, and maybe sometimes you want to take a better picture of yourself, or maybe the front one has a pretty poor quality.

The problem, however, with the rear camera, is that you don't actually see the captured surface, which can become pretty annoying. But if you're the owner of an iPhone, there's now an app that can help you with that. SelfieX is a new entry on the iTunes store and it has already amassed great ratings from those who have downloaded it.

The concept of the app is very simple, just hold your iPhone up to your face and the app will tell you which direction to move in order to get the best shot. The app takes the picture automatically, so that you won't have to search for the shutter button to press it, which is really convenient. Thus, when you are in the frame, the app will announce, "say cheese" and will take a picture. Incredibly easy, right?



After the picture is taken, you will be able to adjust the lighting, contrast, and color; when you're done, you can share it directly to Facebook, Instagram, or Twitter. The app requires iOS 8.0 or later to work and albeit it's compatible with iPhone, iPad, and iPod touch it has been optimized to work on the iPhone 5, iPhone 6, and iPhone 6 Plus.