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## Anticipate The Problem: Inadequate Risk Diversification

[westwoodgroup.com/insight/anticipate-the-problem-inadequate-risk-diversification/](https://westwoodgroup.com/insight/anticipate-the-problem-inadequate-risk-diversification/)



Bottom-up Multi-Asset investing can bring something very powerful and unique to a portfolio in the current environment

Many portfolios today have increasingly more exposure to top-down diversification or macro exposure as indexing has proliferated in investor portfolios. In an environment where index volatility increases across asset classes and correlations go to one, outperformance becomes a function of avoiding losses in the worst stock indices vs. adding higher quality stocks. A flexible, bottom-up multi-asset approach that can sync the asset allocation process to the stock selection process may help investors pursue equity-like returns with less risk. As investors look forward to potentially rising interest rates and a lower nominal growth environment, a winner-take-all market environment creates a favorable backdrop for a bottom-up multi-asset approach particularly if you believe downside market volatility will increase.

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## 2008: Potential Inadequate Risk Diversification in Top-Down Macro-Oriented Multi-Asset Class Strategies

### 2008

S&P 500	Average Performance		S&P 500	Average Performance	
	1H'08	2H'08		1H'08	2H'08
Top 50 Performing Stocks	37.9%	10.7%	Top 100 Performing Stocks	23.5%	1.1%
Bottom 50 Performing Stocks	-47.6%	-72.7%	Bottom 100 Performing Stocks	-38.8%	-64.8%
S&P 500 Performance	-12.8%	-29.4%	S&P 500 Performance	-12.8%	-29.4%

Source: Strategas Research Partners, 2017. *Past performance is not indicative of future results.*

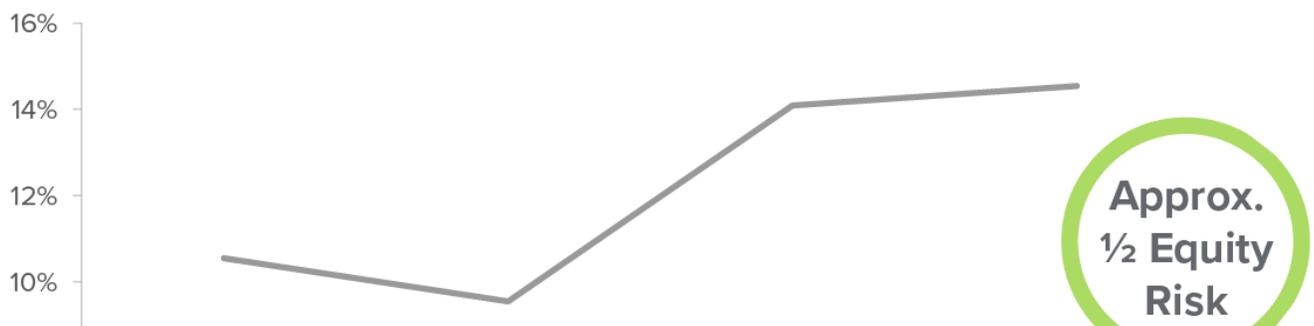
### Why It Matters

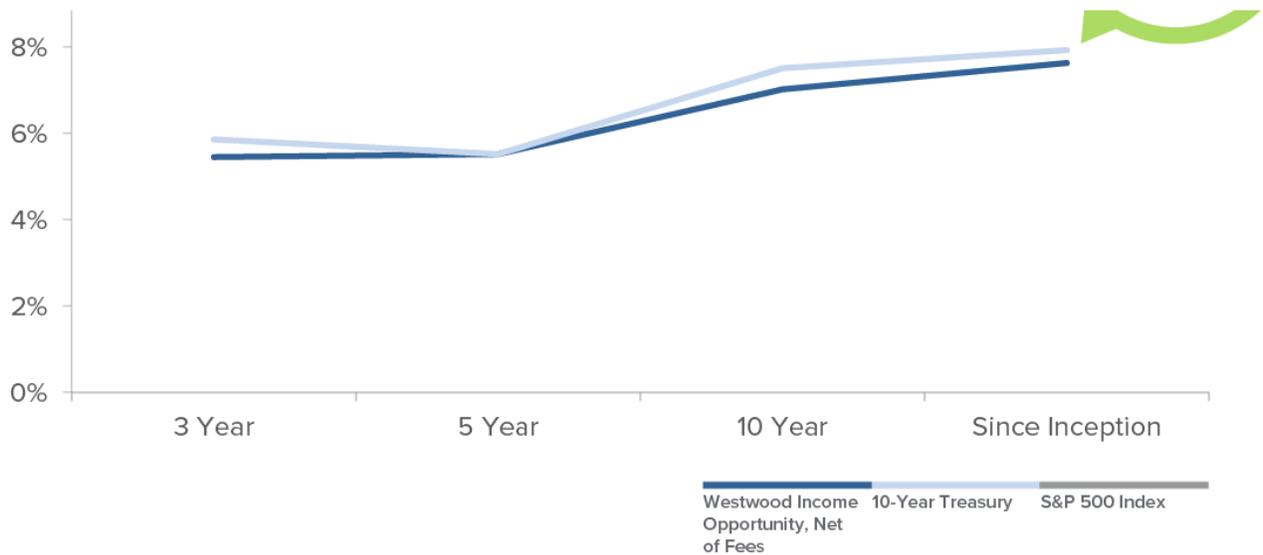
The ability to invest with a flexible, bottom-up multi-asset strategy can help investors avoid the worst performing stocks during a market downturn. Many top-down macro-oriented multi-asset strategies tend to invest in “blunt” indexed instruments exposing investors to undue market risk that could be avoided with an active approach.

### Take Action: Learn More About Our Flexible Multi-Asset Approach and Emphasis on Risk Diversification

### Westwood Income Opportunity | **Equity-Like Returns with Less Risk Since Inception**

Risk (as Measured by Annualized Standard Deviation)





\*Inception Date: 1/1/2003. \*\*Risk Free Proxy: Citigroup (3 M) Treasury Bill (LOC).

Time Period: 1/1/2003 – 12/31/2018; Annualized Returns and Standard Deviation calculated based on quarterly data. Data Source: © 2018 FactSet Research Systems Inc. All Rights Reserved. Please see appendix for full performance disclosures. The disclosures provided are considered an integral part of this presentation. Past performance is not indicative of future results. Portfolio returns reflect the reinvestment of dividend and interest income. Standard & Poor’s and the National Association of Real Estate Investment Trusts (NAREIT) are the sources and owners of the trademarks, service marks and copyrights related to their respective indices.

## Risk and Return Comparison Since Inception\*

	Westwood Net of Fees	10-Year Treasury	S&P 500
Performance	7.83	3.77	8.97
Risk	7.63	7.93	14.54

Sharpe Ratio\*\*



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## Westwood Income Opportunity: Key Takeaways

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### Bottom-Up Multi-Asset Solution

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Asset mix diversifies sources of return and is driven by in-depth fundamental bottom-up research

### Asymmetric Return Focus

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Participation in up markets with an emphasis on protecting capital in down markets

### Flexible Approach

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Flexibility allocates across asset classes, capital structures, sectors and market caps that display absolute value

### Risk-Focused Growth & Income

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Navigates changing market conditions by balancing the trade-offs between capital appreciation, yield and risk

A flexible bottom up approach to multi-asset investing could be a way for investors to diversify their equity returns with less risk.

