

The Flavors of Investing

It is tempting to jump on the investment bandwagon when certain parts of the market soar based on a trend or analyst report. While great potential exists, sector investing can also come with great risk.

As seen in the image, what is hot one year isn't always hot the next. Interested investors should be willing to follow a sector's ups and downs, as timing the market is difficult. Investing in specific sectors can add volatility to a portfolio, but exposure to the right sectors can contribute to improved financial performance. Keep in mind that while sector investing can fill a gap or serve as a speculative play, a balanced asset allocation should be the core of any portfolio.

10-Year Sector Winners and Losers

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Highest return	50.3	38.1	40.8	39.4	32.9	-16.1	61.9	30.5	18.5	32.5
Basic Mat.	41.0	32.1	14.8	36.2	27.5	-23.3	53.6	27.4	13.4	29.1
Comm. Ser.	37.6	23.3	12.2	21.8	17.2	-28.1	50.2	24.9	11.9	24.6
Cons. Cyclical	37.3	19.2	8.1	19.7	16.6	-38.2	35.6	24.2	6.9	19.3
Cons. Def.	34.8	17.9	6.0	17.6	12.6	-38.4	34.0	23.4	5.1	18.6
Energy	32.1	15.4	6.0	15.4	12.0	-39.4	29.3	23.2	4.1	16.5
Financial	26.1	14.4	5.2	15.1	8.0	-39.8	24.0	14.5	0.6	15.3
Health Care	24.7	12.5	3.7	15.0	0.2	-41.2	21.0	13.4	-0.4	13.3
Industrials	19.8	10.1	3.0	11.9	-8.7	-42.0	15.6	11.8	-0.7	10.1
Real Estate	18.9	3.5	-1.4	10.9	-17.9	-48.1	14.5	7.3	-14.1	4.3
Technology	17.4	0.8	-6.0	6.7	-18.3	-51.3	11.8	5.1	-16.5	2.2
Utilities										
Lowest return	17.4	0.8	-6.0	6.7	-18.3	-51.3	11.8	5.1	-16.5	2.2

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Sector investments are narrowly-focused investments that typically exhibit higher volatility than the market in general. Sector investments will fluctuate with current market conditions and may be worth more or less than the original cost upon liquidation. Returns and principal invested in stocks are not guaranteed.

Source: Sectors in this example are represented by the Morningstar Sector Indexes.

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