Rebalancing in Style

Markets in Motion Series

American Century Investments®

FINANCIAL FYI

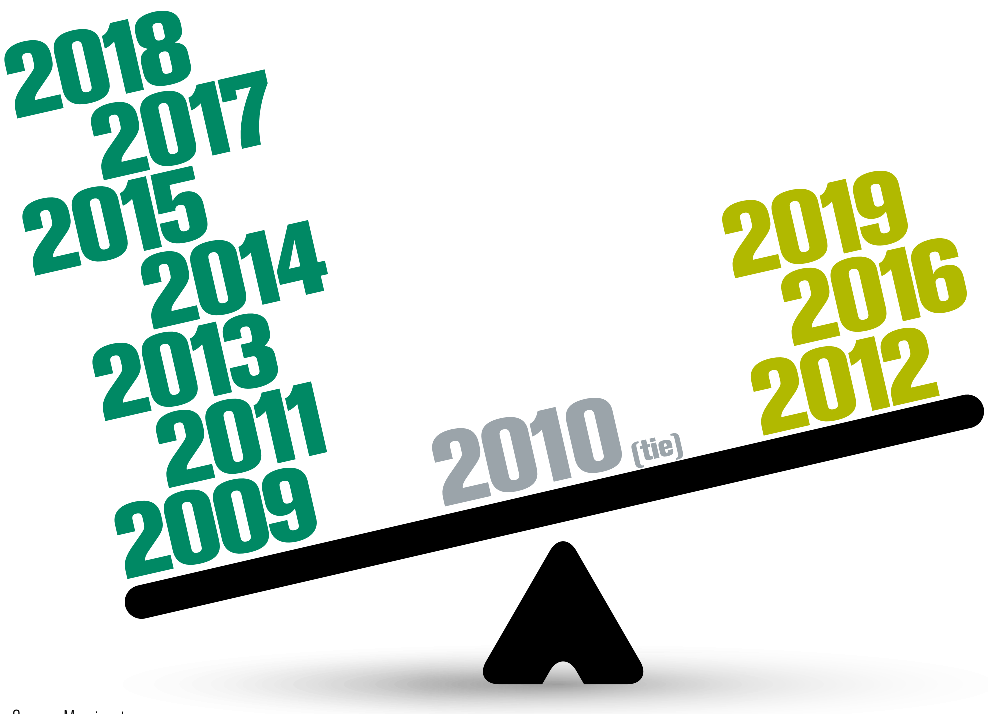
When Too Much of a Good Thing Is Bad for Portfolios

Letting dough rise for too long when making bread can weaken its structure, eventually causing the loaf to collapse. When seeking to make "bread" in terms of money, letting your winners run too long can lead to a lopsided portfolio. This increases the risk that your fortunes rise and fall based on the performance of one country, sector, company, or even one stock style.

Growth Style Has Won More Than Value Style

An often overlooked aspect of the stock market since 2009 is that it has rewarded growth stocks more than value stocks.

It's Been a Lopsided Market



Two Styles of Stocks

■ = **Growth**
Stocks of companies that have exhibited faster-than-average earnings growth, sales growth and momentum.

■ = **Value**
Stocks that don't fully reflect a company's intrinsic value. A stock's intrinsic value is based on projecting the company's future cash flows along with other factors.

Source: Morningstar.

Total Return by Calendar Year

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Growth Stocks	32%	15%	5%	15%	33%	15%	6%	7%	27%	0%	31%
Value Stocks	21%	15%	0%	18%	32%	12%	-3%	17%	15%	-9%	32%

Source: Morningstar. Data as of 12/31/2019. Growth stocks represented by S&P 500® Growth Index. Value stocks represented by S&P 500® Value Index. The indices do not reflect fees, brokerage commissions, taxes or other expenses of investment. Investors cannot invest directly in an index. Past performance is no guarantee of future results.

Most diversified portfolios include a mix of growth and value stocks, which don't react the same way to market events—when one isn't doing well, the other has typically been in favor. Diversification may help balance performance and manage risk.

If left unchecked, your asset allocation may have changed over the past few years and actually increased the overall risk of your portfolio. That's why it's important to monitor your mix of growth and value stocks.

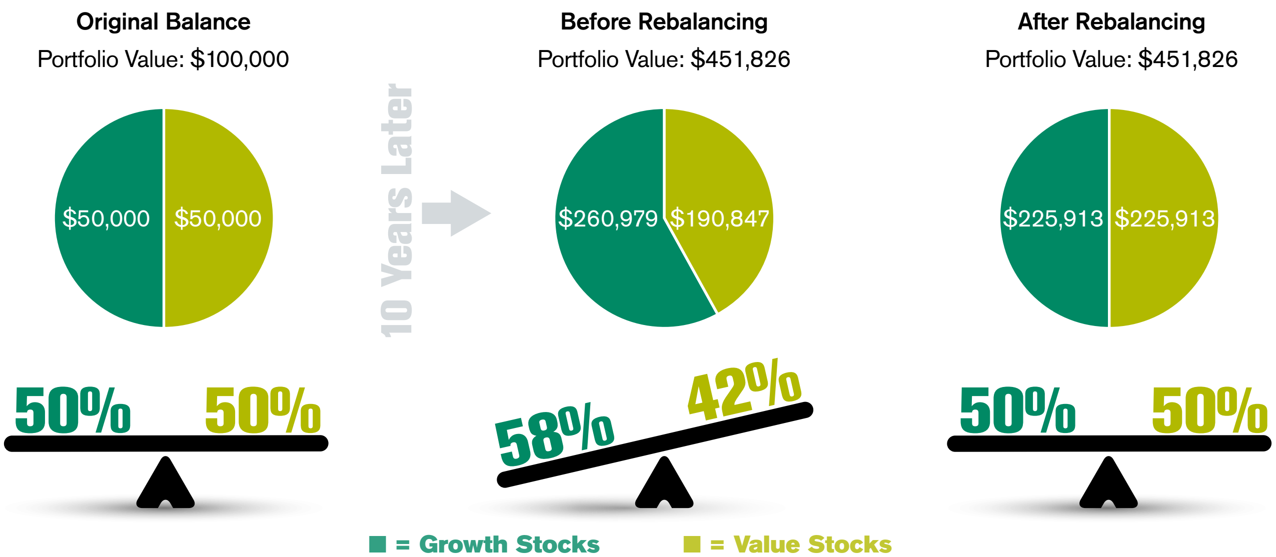
Portion Control

Just as there are recommended portion sizes for a well-balanced diet, you and your advisor may have set the long-term mix of growth and value holdings. Say in 2009 you decided to split your stock mix equally between the growth and value styles and walked away. Over the past 10 years, your growth allocation appreciated more than your value allocation.

To avoid too much exposure to growth stocks, you could rebalance to get the percentages back to your original allocations. See the example below. In this case, you may be selling top performers and buying more undervalued investments—the definition of buying low and selling high.

Keeping Your Mix in Balance

Hypothetical Example



Source: Morningstar. Data as of 12/31/2019, reflecting hypothetical portfolio values beginning on 1/1/2009 thru 12/31/2019. Growth stocks represented by S&P 500® Growth Index. Value stocks represented by S&P 500® Value Index. The indices do not reflect fees, brokerage commissions, taxes or other expenses of investment. Investors cannot invest directly in an index. This hypothetical situation contains assumptions that are intended for illustrative purposes only and are not representative of the performance of any security.

There is no assurance similar results can be achieved, and this information should not be relied upon as a specific recommendation to buy or sell securities. Past performance is no guarantee of future results.

Checking Your Dough

Your asset mix should be carefully allocated based on your age, risk tolerance, and goals for the future. Stay on track by periodically revisiting the original recipe you put in place.

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

Rebalancing allows you to keep your asset allocation in line with your goals. It does not guarantee investment returns and does not eliminate risk.

Diversification does not assure a profit nor does it protect against loss of principal

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