Advisor Explanation

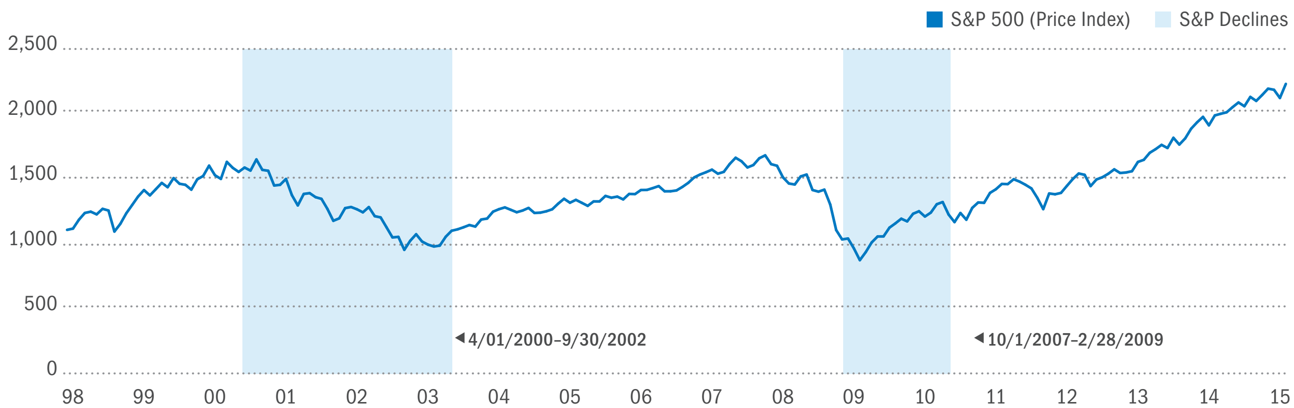
TIAA-CREF Asset Management

What goes up when stocks go down?

How different investments performed during the last two bear markets.

Practice Management | Investor Communications Series

Asset class returns during two major S&P 500 declines.*



	4/01/2000–9/30/2002	10/1/2007–2/28/2009
S&P 500	-43.75	-50.17
Small-cap US Eq	-30.48	-50.67
Developed Foreign	-46.70	-54.98
EM Eq	-43.95	-57.31
REITs	45.38	-64.40
CBOE Gold Index**	55.27	-15.26
Gold***	16.34	26.53
Commodities	15.85	-48.92
Corporate Bonds	26.89	-9.15
Gov't bonds	30.06	13.37
Treasury Bills	10.94	3.50

* Cumulative Total Returns from Morningstar; ** CBOE Gold Index is an index of companies involved in gold mining and production; *** Gold Price data from FactSet.

The following was used to calculate total cumulative returns: S&P 500 TR USD; Russell 2000 TR USD; MSCI EAFE NR USD; MSCI EM NR USD; FTSE NAREIT All Equity REITs TR USD; CBOE Gold; Gold (Via Factset); S&P GSCI TR; Barclays Long US Corp TR USD; Barclays US Government TR USD; Barclays US Treasury Bills TR USD.

It is not possible to invest in an index. Performance for indices does not reflect investment fees or transactions costs.

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Bear markets: clients worry about risk.
Bull markets: clients focus on returns.

During bear markets, clients worry endlessly about risk. During bull markets, they focus too much on returns. As of early 2015, the conversation is squarely focused on returns, thanks to strong stock-market gains since March 2009. This chart offers the chance to bring risk back into the conversation – and explain why you recommend owning a diversified investment portfolio.

As you discuss the chart with clients, you might emphasize three points:

- **During bear markets, stocks become highly correlated.** Broad stock-market diversification may smooth out performance in most years, as sectors cycle in and out of favor, but it won't help in years when the market suffers a severe decline, because all parts of the global stock market will likely take a beating.
- **The heroes of one market decline can fail miserably in the next bear market.** Real-estate investment trusts, commodities and gold became popular after their strong performance in 2000-02, but they didn't protect investors in the 2007-09 decline. That doesn't mean investors shouldn't have a small position in these assets as part of a diversified portfolio. But as with any risky asset, the short-term performance is unpredictable, so we can't be sure how they'll perform when the stock market next tumbles.
- **Bonds and cash investments may offer low returns, but also tend to be lower risk – and clients will be grateful for that low risk when financial markets next decline.** What if clients are inclined to keep little or nothing in bonds and cash investments, because they're confident they won't be unnerved by a plunging stock market?

You might ask them to recall how they felt and behaved during the 2007-09 bear market. Did they sell, sit tight or buy more? You might also ask them to think about a market decline in dollar terms, rather than percentages. How would they feel if a 50% stock-market decline turned their $1 million stock portfolio into $500,000?

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