

Understanding diversification

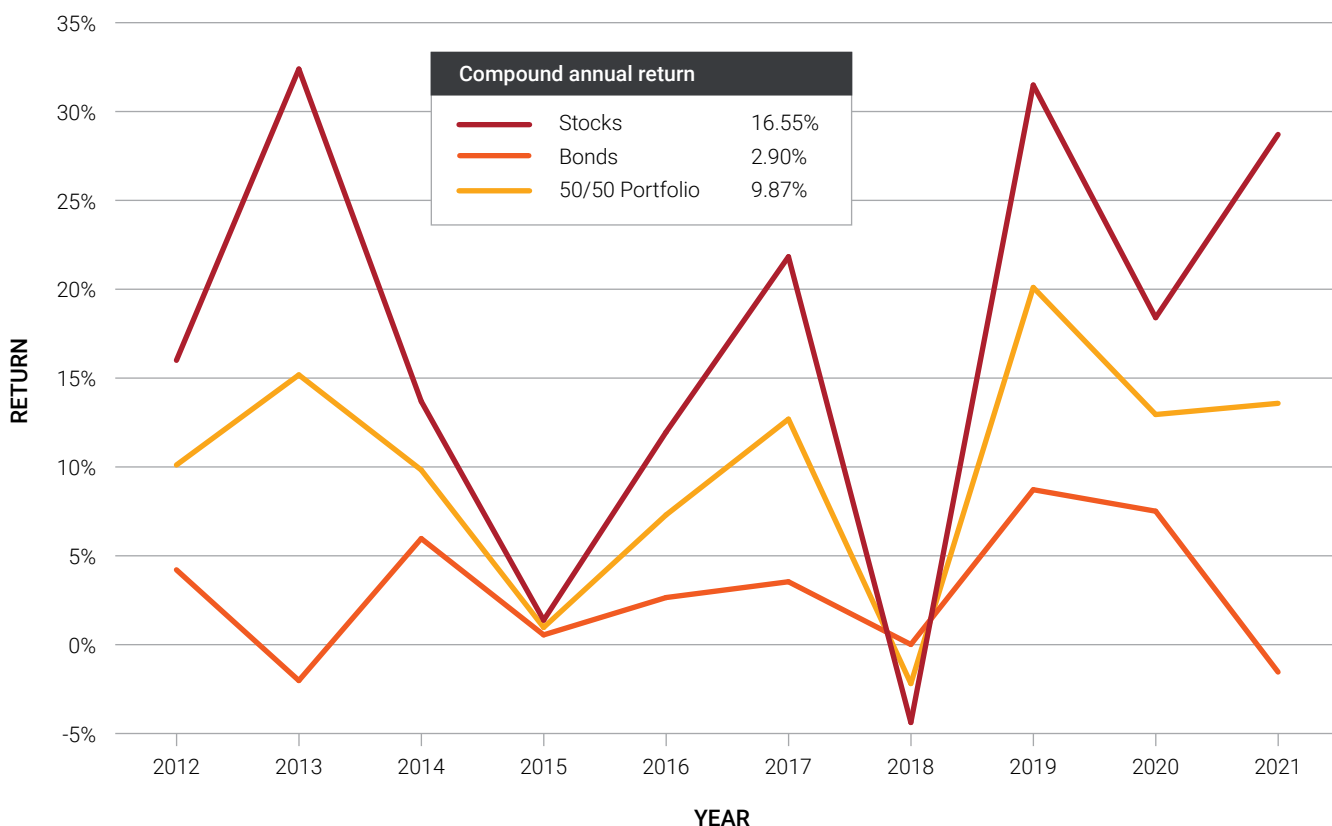
Balancing risk and reward can be a helpful investment strategy. For example, if investors invest only in stocks, they may suffer big losses when the stock market dips. But if they invest only in bonds, their returns may not outpace inflation and may not help them reach their retirement goals.

Experts recommend diversification — dividing a portfolio among different asset classes, such as U.S. and international stocks, bonds, and cash. While this strategy can encourage growth and reduce risk, it's important to remember that diversification does not guarantee profits or prevent losses.

Diversification can play a role in a portfolio's volatility. This chart shows how a diversified portfolio experienced less volatility than stock-only or bond-only portfolios over a period of 10 years.

The case for diversifying

Example of market performance, 2012–2021



Past performance is no guarantee of future results. Stocks are represented by the S&P 500 total return index, including dividends. Bonds are represented by the Bloomberg U.S. Aggregate Bond Index. You cannot invest directly in an index. All indices are unmanaged and do not include fees or expenses. © Morningstar. All rights reserved.

No asset class stays on top

This chart shows how different asset classes perform in a given year over a 10-year period. Each category is color-coded and listed from best-performing to worst in each year. Additionally, the black line represents the annual returns of a diversified asset allocation portfolio. Diversification may help investors smooth these ups and downs in their portfolios.

Asset class winners and losers

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
REITs 19.7%	US Sm Cap 38.9%	REITs 28%	REITs 2.8%	US Sm Cap 21.3%	EM Stocks 37.8%	Cash 1.8%	US Lg Cap 31.5%	US Sm Cap 20.0%	REITs 41.3%
Global HY Bond 19.6%	US Lg Cap 32.4%	US Lg Cap 13.7%	US Lg Cap 1.4%	Global HY Bond 14.2%	Foreign Stocks 25.6%	US Core Bond 0%	REITs 28.7%	Commods 18.7%	US Lg Cap 28.7%
EM Stocks 18.6%	Foreign Stocks 23.3%	US Core Bond 6%	US Core Bond 0.6%	US Lg Cap 11.9%	US Lg Cap 21.8%	REITs -4%	US Sm Cap 25.5%	US Lg Cap 18.4%	Commods 27.1%
Foreign Stocks 17.9%	Asset Allocation 14.9%	Asset Allocation 5.2%	Cash 0%	Commods 11.7%	US Sm Cap 14.7%	Global HY Bond -4.1%	Foreign Stocks 22.7%	Asset Allocation 11.3%	US Sm Cap 14.8%
US Sm Cap 16.3%	Global HY Bond 7.3%	US Sm Cap 4.9%	Foreign Stocks -0.4%	EM Stocks 11.6%	Asset Allocation 14.6%	US Lg Cap -4.4%	Asset Allocation 19.5%	Global HY Bond 8.3%	Asset Allocation 13.4%
US Lg Cap 16%	REITs 2.9%	Global HY Bond 0%	Asset Allocation -2%	REITs 8.6%	Global HY Bond 10.4%	Asset Allocation -5.8%	EM Stocks 18.9%	US Core Bond 7.5%	Foreign Stocks 11.8%
Asset Allocation 12.2%	Cash 0%	Cash 0%	Global HY Bond -2.7%	Asset Allocation 8.3%	REITs 8.7%	US Sm Cap -11%	Global HY Bond 12.6%	Cash 7.0%	Global HY Bond 1.0%
US Core Bond 4.2%	US Core Bond -2%	EM Stocks -1.8%	US Sm Cap -4.4%	US Core Bond 2.6%	US Core Bond 3.5%	Commods -11.3%	US Core Bond 8.7%	REITs 0.5%	Cash 0%
Cash 0.1%	EM Stocks -2.3%	Foreign Stocks -4.5%	EM Stocks -14.6%	Foreign Stocks 1.5%	Commods 1.7%	Foreign Stocks -13.4%	Commods 7.7%	Foreign Stocks -3.1%	US Core Bond -1.5%
Commods -1.1%	Commods -9.5%	Commods -17%	Commods - 24.7%	Cash 0.3%	Cash 0.8%	EM Stocks -14.3%	Cash 2.2%	EM Stocks -5.1%	EM Stocks -2.2%

You cannot invest directly in an index. All indices are unmanaged and do not include fees or expenses. All data represents total return for stated period. The Asset Allocation portfolio is for illustrative purposes only. Past performance is not indicative of future returns.

Source: Bloomberg, FactSet, S&P, MSCI, FTSE, Russell. Data as of September 30, 2022. **US Core Bond:** US BBgBarc Aggregate TR; **US Lg Cap:** S&P 500 TR; **Cash:** BBgBarc US Treasury Bill 1-3 Mon TR USD; **Global HY Bond:** BBgBarc Global High Yield TR USD; **EM Stocks:** MSCI EM GR USD; **Foreign Stocks:** MSCI EAFE GR USD; **US Sm Cap:** Russell 2000 TR USD; **Commods:** Bloomberg Commodity TR USD; **REITs:** FTSE NAREIT All Equity REITs TR USD; **Asset Allocation:** 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EME, 25% Bloomberg Barclays US Aggregate, 5% Bloomberg Barclays 1-3m Treasury, 5% Bloomberg Barclays Global High Yield Index, 5% Bloomberg Commodity Index and 5% NAREIT Equity REIT Index.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

©2022 Lincoln National Corporation

[LincolnFinancial.com/Retirement](https://lincolnfinancial.com/Retirement)

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

PAD-5189575-111622
 POD ADA 12/22 **Z06**
Order code: DC-DIVER-FLI001



Mutual funds and variable annuities are sold by prospectus. Investors are advised to consider carefully the investment objectives, risks, charges and expenses of a mutual fund and, in the case of a variable annuity, the variable contract and its underlying investment options. To obtain a mutual fund or variable annuity prospectus that contains this and other information, call 800-234-3500. Carefully read the prospectus before investing or sending money.

Variable annuities are long-term investment products designed particularly for retirement purposes and are subject to market fluctuation, investment risk, and possible loss of principal. Variable annuities contain both investment and insurance components and have fees and charges, including mortality and expense, administrative, and advisory fees. Optional features are available for an additional charge. The annuity's value fluctuates with the market value of the underlying investment options, and all assets accumulate tax-deferred. Withdrawals of earnings are taxable as ordinary income and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Withdrawals will reduce the death benefit and cash surrender value. There is no additional tax-deferral benefit for an annuity contract purchased in an IRA or other tax-qualified plan.

Variable annuities sold in New York are issued by Lincoln Life & Annuity Company of New York, Syracuse, NY, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer. For all other states, variable annuities are issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer. **The Lincoln National Life Insurance Company does not solicit business in the state of New York, nor is it authorized to do so. Contractual obligations are subject to the claims-paying ability of the appropriate issuing company.**

The mutual fund-based programs include certain services provided by Lincoln Financial Advisors Corp. (LFA), a broker-dealer (member FINRA, SIPC) and retail and financial planning affiliate of Lincoln Financial Group, 1301 S. Harrison St., Fort Wayne, IN 46802. Unaffiliated broker-dealers also may provide services to customers. Account values are subject to fluctuation, including loss of principal.

This material is provided by The Lincoln National Life Insurance Company, Fort Wayne, IN, and, in New York, Lincoln Life & Annuity Company of New York, Syracuse, NY, and their applicable affiliates (collectively referred to as "Lincoln"). This material is intended for general use with the public. Lincoln does not provide investment advice, and this material is not intended to provide investment advice. Lincoln has financial interests that are served by the sale of Lincoln programs, products, and services.