

Building a Better Block Chart

Bottom Line

- The traditional quilt-block chart is short on insight and context into asset class performance.
- We believe our reconstructed chart gives a more meaningful look at performance, and may correct some misperceptions many investors have.

Many investors are familiar with the “quilt-block” chart – featuring rows of colorful blocks that illustrate the performance of different asset classes year by year. These charts may be handy as an overview of yearly asset class performance, but if you try to use them as a portfolio construction tool, their usefulness can quickly unravel.

The problem

There are two main reasons why we believe the traditional quilt-block charts are full of holes:

1. They show which asset classes were the best and worst performers in a given year, but they give little insight into how they perform over time.
2. They do not give any information about the economic conditions that may influence asset class behavior, so their performance has no context.

The solution

At first glance, the chart below may look like the traditional quilt-block chart, but we’ve reconstructed it in some important ways. See the back page to find out more.

The Importance of Diversification						
Time Frame	1929-1941 (13 Yrs.)	1942-1965 (24 Yrs.)	1966-1981 (16 Yrs.)	1973-1981 (9 Yrs.)	1982-1999 (18 Yrs.)	2000-2010 (11 Yrs.)
Market Environment	Deflation	Low-Inflationary		Inflation	Low-Inflationary	
		Growth			Growth	Deflation-Like*
Highest Return	Corporate Bonds 6.06%	Stocks 15.70%	Inflation 7.00%	Commodities 12.81%	Stocks 18.52%	Long-Term Govt. Bonds 8.09%
	Long-Term Govt. Bonds 4.55%	Inflation 3.06%	T-Bills 6.83%	Inflation 9.22%	Corporate Bonds 12.17%	Corporate Bonds 8.05%
	T-Bills 0.79%	Corporate Bonds 2.45%	Stocks 5.95%	T-Bills 8.23%	Long-Term Govt. Bonds 12.08%	Commodities 5.41%
	Inflation -0.79%	Long-Term Govt. Bonds 2.11%	Corporate Bonds 2.89%	Stocks 5.16%	Commodities 9.00%	T-Bills 2.52%
	Stocks -2.43%	T-Bills 1.70%	Long-Term Govt. Bonds 2.53%	Corporate Bonds 2.49%	T-Bills 6.23%	Inflation 2.47%
Lowest Return	Commodities index did not exist.			Long-Term Govt. Bonds 2.49%	Inflation 3.29%	Stocks 0.41%

* This period did not represent a true deflationary period because consumer prices did not fall. However, there were dislocations in credit to the upside and downside during the decade. The reductions in credit supply that occurred in the early and later part of the decade led to economic contractions similar to what would be experienced in a deflationary environment. Sources: Ibbotson; Bloomberg L.P., Invesco (commodities). For index information, see the back page. Past performance is not a guarantee of comparable future results.

Stocks may decline in response to investor sentiment, general economic and market conditions, regional or global instability, and currency and interest rate fluctuations. Fixed-income products, such as corporate bonds, are subject to the effects of changing interest rates. Obligations issued by U.S. government agencies and instrumentalities may receive varying levels of support from the government, and Treasury Bills and long-term government bonds would be affected should they default. Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds.



The changes

Our chart shows the annualized performance of various asset classes from 1929 through 2010. But instead of showing performance by calendar year, we divide our data into six time periods reflecting five distinct market environments. Examining the data in this form, it's easy to see historical trends.

- **Deflation.** Bonds led the way in the deflationary environment of 1929 to 1941. They led again from 2000 to 2010, when credit supply reductions created a deflationary-like environment.
- **Inflation.** In the inflationary years of 1966 to 1981, T-bills outperformed stocks, and both of those asset classes trailed the inflation rate. Data for the commodities index became available in 1973, in the midst of that inflationary period. Starting then, commodities led the way for nine years and were the only asset class that provided meaningful returns above inflation. It's important to note that commodities generally are volatile and are not suitable for all investors.
- **Low-inflationary growth.** Stocks were the clear leaders in the low-inflationary growth periods of 1942 to 1965 and 1982 to 1999.

This is important knowledge because – rather than trying to position a portfolio for the coming calendar year – investors should be focusing on constructing a long-term portfolio that can withstand a variety of economic environments – especially if those environments persist for several years. The inflationary period from 1966 lasted 16 years, and the deflation-like environment from 2000 is going on 11 years. This may represent a significant length of time for some retirement investors, and certainly for those parents who have just 18 years to build up a college savings account for their children.

What's more, seeing the data in this context may correct some misperceptions that many investors have.

- **"It's 'normal' for stocks to outperform."** In general, baby boomers began seriously investing during the low-inflationary growth period of 1982 to 1999, when stocks outperformed. And many believe bull markets are the norm because their early investing experiences were so positive. We may all hope to see a 20-year equity bull market again, but such a market may not happen precisely when you need it to. You need to make sure you have a plan you can live with if equity market returns turn out worse than you're hoping for.
- **"Equities are the best inflation hedge."** This is a common adage among investors, but historically, this has not been the case. From 1966 to 1981, T-bills outperformed stocks, and both of those asset classes were trumped by inflation. Commodities were the only asset class to outperform inflation during this time period. Investors may wonder about certain segments of the stock market, such as small-cap stocks or various sectors. While it's possible to find slices of the market that outperformed inflation, we believe that for most investors, overweighting a portfolio toward a small segment of the stock market may just increase downside risk along with any upside returns.

Talk to your advisor

One of the keys to portfolio construction is to understand the risks of investing in various economic environments, which our reconstructed quilt-block chart helps illustrate. Talk to your advisor about how to prepare your portfolio so that, no matter which economic environment comes, you may be better covered.

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Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their advisors for a prospectus/summary prospectus or visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus).

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

All data provided by Invesco unless otherwise noted.

Diversification does not guarantee a profit or eliminate the risk of loss.

In the chart, stocks are represented by the S&P 500 Index®; inflation by the Consumer Price Index (CPI); commodities by the S&P GSCI Index; long-term government bonds by the Ibbotson U.S. Long-Term Government Index; T-Bills by the Ibbotson U.S. 30-Day T-Bill Index; and corporate bonds by the Ibbotson U.S. Long-Term Corporate Bond Index. An investment cannot be made directly in an index.

The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market. The CPI is a measure of change in consumer prices as determined by the U.S. Bureau of Labor Statistics. The S&P GSCI Index is an unmanaged world production-weighted index composed of the principal physical commodities that are the subject of active, liquid futures markets. The Ibbotson U.S. Long-Term Government Bond Index is an unmanaged index representative of long-term U.S. government bonds. The Ibbotson U.S. 30-Day T-Bill Index is an unmanaged index representative of 30-day Treasury bills. The Ibbotson U.S. Long-Term Corporate Bond Index is an unmanaged index representative of long-term U.S. corporate bonds.