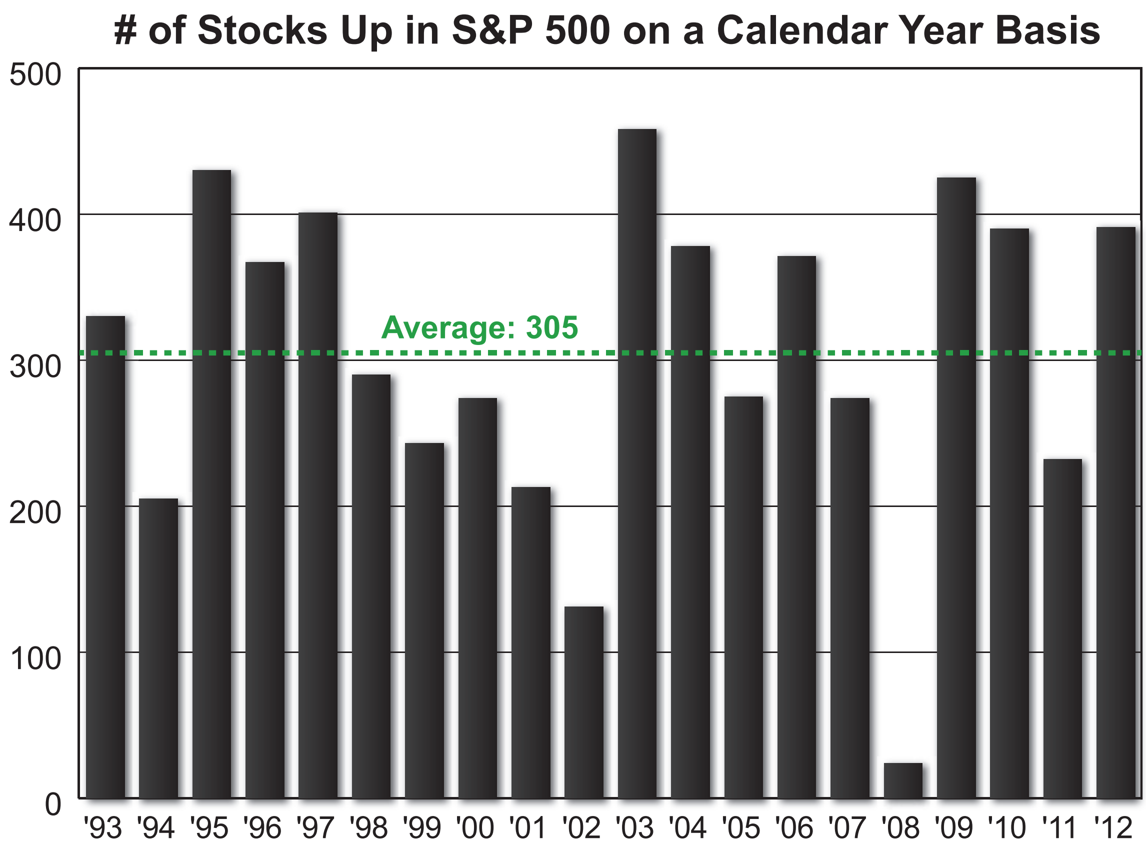
Sometimes Less Is More



Source: Standard & Poor's COMPUSTAT Database

View from the Observation Deck

1. If an investor seeks to outperform a benchmark index, such as the S&P 500, one way to approach the challenge is to simply pare down the number of stocks one invests in.
2. From 1993-2012 (20 years), the average number of stocks in the S&P 500 with a positive total return in a given calendar year was 305, or 61% (see chart).
3. The average from 1993-2002 (10 years) was 288, or 58%. Fairly consistent! For the sake of argument, let's say 4 out of every 10 stocks in a given year are down.
4. So one way in which an investor might generate a return that beats the return of the broader index is to seek to identify and eliminate those companies most likely to end up in the red at year-end. Easier said than done.
5. This is where professionals can add value for an investor. Financial consultants and packaged product vendors can offer a multitude of ways to potentially outperform the broader market.

This chart is for illustrative purposes only and not indicative of any actual investment. Investors cannot invest directly in an index. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.