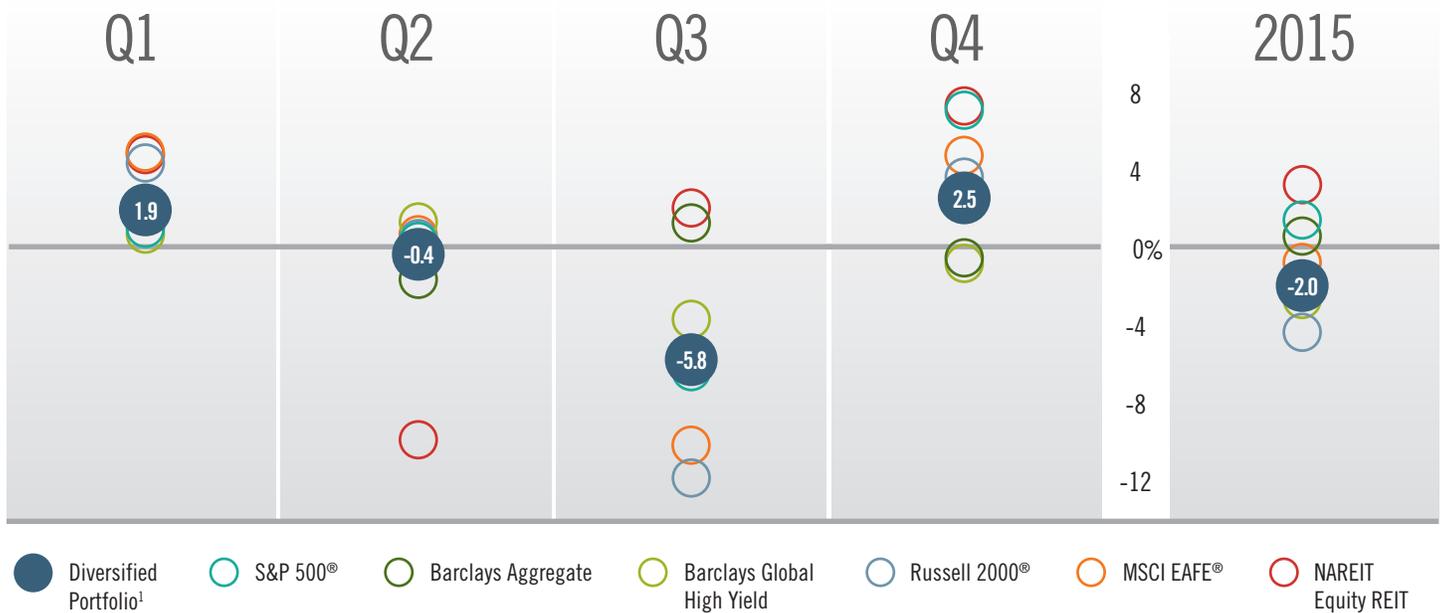


## 2015 in Perspective: Nowhere to Run

It's hard to label 2015's market results as anything better than disappointing. Many major markets hovered around flat, while others surprised to the downside—especially emerging markets, oil, and other commodities. Common sense diversification—incorporating a global mix of stocks, bonds, and alternatives—didn't work well. Most investors' diversified portfolios were likely in negative territory, meaning that there was “nowhere to run” in 2015.

### Performance of a Diversified Portfolio<sup>1</sup> versus Indexes in 2015<sup>3</sup>



### A Tough Draw

Percentage of Morningstar Categories in the Red in 2015<sup>2</sup>

**89%** of Domestic Equity (8 of 9)

**53%** of International Equity (8 of 15)

**69%** of Taxable Bond (11 of 16)

**100%** of Asset Allocation (17 of 17)

**100%** of Alternatives (6 of 6)

### Key Observations

- The S&P 500<sup>®</sup> became more expensive, despite having a flat year due to lower earnings in 2015. Its trailing 12-month P/E ratio was 21.1x at the end of 2015, versus 18.4x for 2014.<sup>3</sup>
- 219 stocks of the S&P 500 had positive returns for the year; 285 were negative. On average, the top 25 stocks gained 55.1%, while the bottom 25 declined 53.5%. The median stock returned -0.3%.<sup>4</sup>
- Falling oil prices drove lousy performance among energy companies but some big new economy stocks soared: The so-called “FANG” stocks (Facebook, Amazon, Netflix, Google) contributed 3.7% to the Index for the year, well in excess of its total return.<sup>4</sup>
- Growth stocks trounced value stocks, and large caps outpaced small caps. Thus, Morningstar's large-growth equity was the only domestic equity category in the black, returning 3.6% versus the small-value category's -6.7%.<sup>2</sup>
- Developed international markets (Japan, Europe) generated strong returns in local currency, but a strong U.S. dollar muted or erased those gains.

<sup>1</sup>Source: JPMorgan. See following page for composition and definitions. Q2, Q3, and Q4 returns were calculated by Virtus Investment Partners based on year-to-date returns for the periods ending June 30, 2015, September 30, 2015, and December 31, 2015. 2015 is full year ended December 31, 2015.

<sup>2</sup>Source: Morningstar.com.

<sup>3</sup>Source: Virtus Performance Analytics.

<sup>4</sup>Source: Virtus Investment Partners.

Past performance is not indicative of future results.

## VITAL CONSIDERATIONS

- 1 Risk Management** Protecting against losses should be a primary concern for investors. That means asking hard questions about whether an investment's potential returns are justified by its anticipated risks. It also means appreciating that a key risk we must manage is not reaching our financial goals, which could stem from a portfolio that is too conservatively positioned.
- 2 Diversification** Predicting the top performers with consistency is impossible. Thus, diversification remains the cornerstone principle behind any sound portfolio. But, just because something works much of the time doesn't mean that it works all of the time. Sometimes a portfolio will have only a slim allocation to a "hot" market; other times, many markets will cluster around the same returns, resulting in not much being gained from spreading one's bets. Nonetheless, there's no substitute for diversification when attempting to achieve our long-term financial goals.
- 3 Investor Behavior** Ultimately, our long-term investment results are driven by the good and bad decisions we make over the course of a lifetime—more so than picking the right stock, bond, or fund. Because humans are hardwired with a litany of emotional and cognitive biases, we sometimes make regrettable choices. Perhaps we buy at the top of a market when we feel comfortable, or sell at the bottom when we are concerned. A focus on calm, patient decision making in the context of a well-defined financial plan—one with reasonable expectations—will keep investors in good stead over the long haul.

**Virtus Has Answers.** Virtus Investment Partners takes pride in offering a broad and growing array of carefully curated solutions geared toward successfully meeting well-defined investment objectives. These include **lower correlated strategies** to fortify client portfolios by dampening overall volatility, allowing for calmer, better decision making; **opportunistic investments**, to capitalize on global market trends; **portfolio-centric solutions** which may hedge potential losses without sacrificing too much upside; and **evergreen alpha opportunities**, where sound fundamental analysis trumps market timing.

The Diversified Portfolio assumes the following weights: 25% in the S&P 500®, 10% in the Russell 2000®, 15% in the MSCI EAFE®, 5% in the MSCI EM, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index, and 5% in the NAREIT Equity REIT Index. Assumes annual rebalancing. Data represents total return for stated period. Source: JPMorgan. The Diversified Portfolio is not representative of any Virtus portfolio. Investors should consult their financial professional to identify suitable portfolio allocations. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different asset classes reduces risk.

**Index Definitions**—The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Barclays Capital U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **MSCI EAFE® Index (net)** is a free-float-adjusted market-capitalization weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. The index is calculated on a total return basis with net dividends reinvested. The **MSCI Emerging Markets Index (net)** is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested. The **Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible. The **Barclays Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities. The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc. The **NAREIT Equity REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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