

# Diversified Indices Recover Faster than Cap-Weighted Indices

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## S&P 500 Financials Sector Finally Hits New High, Five Years after Stratified Weight

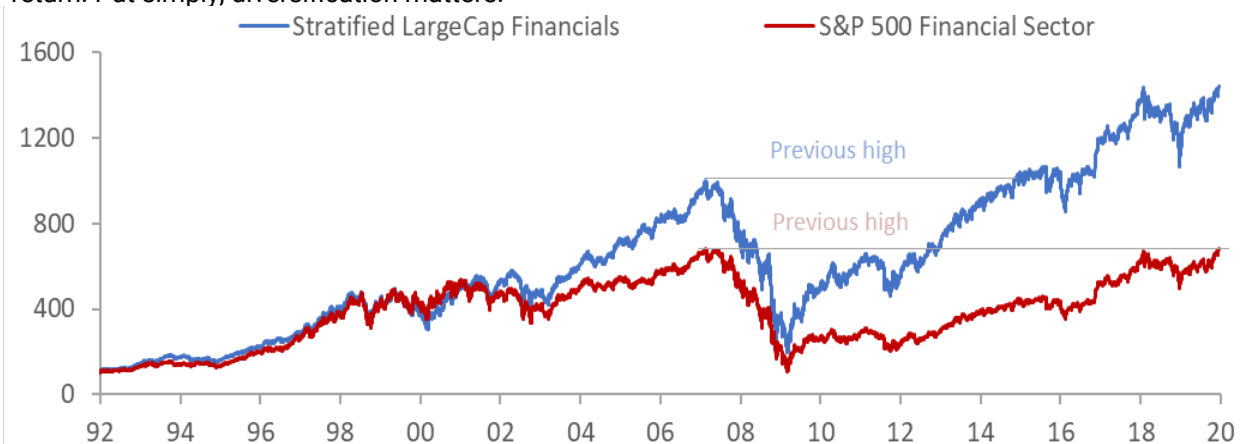
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When investors think about diversification, they are usually looking to reduce downside volatility. However, a more diversified approach can be just as helpful in enhancing returns during a market recovery. The S&P 500 Financials Sector has given investors a turbulent ride over the last decade. Since that index peaked on February 20, 2007, it has had an incredibly sluggish recovery. Just yesterday, almost thirteen years after the last peak, the index achieved a new all-time high.

Why did the recovery take so long? The S&P 500 Financials Index is a cap-weighted index, so the largest companies – JP Morgan, Wells Fargo, Bank of America – are given by far the largest weight. From February 2007 to today, the largest 10 companies in the Financials sector comprised, on average, 53.6% of the index. Moreover, these mega-cap companies are all engaged in similar businesses. This means the S&P 500 Financials Index contains concentrated risk exposures and is therefore not fully diversified.

Syntax's Stratified Weight approach is designed to increase business diversification. By reducing exposure to any one kind of supply chain, customer group or product type, Stratified Weight can help avoid shocks to groups of related securities, like big banks, that were structurally derated during the financial crisis.

Through its improved diversification, the Stratified LargeCap Financials Index had a much speedier recovery.<sup>1</sup> While its 2007 peak occurred on the same day as the S&P 500 Financials Index, its subsequent peak was on October 31, 2014, over 5 years sooner than the cap-weighted index. Furthermore, while the S&P 500 Financials Index was underwater from February 20, 2007 to December 12, 2019, Stratified LargeCap Financials Index earned a 44.6% cumulative price return. Put simply, diversification matters.



Cumulative price return of S&P 500 Financials Index and Stratified LargeCap Financials, 12.20.1991 – 12.12.2019. Levels indexed to 100 on 12.20.1991. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

1. Data on the Stratified LargeCap Financials Index prior to inception on 12.27.2016 is backtested. Please see important disclaimers regarding backtested data prior to inception.

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## Important Disclaimers

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. All performance presented prior to the index inception date is backtested performance. Backtested performance is not actual performance, but is hypothetical. The inception date of the Syntax Stratified LargeCap Index was December 27, 2016. The backtest calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index. Charts and graphs are provided for illustrative purposes only.

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The S&P 500® Financials Index is an unmanaged index considered representative of the US mid- and large-cap financials sector stock market. Benchmark data for the S&P 500 Financials Index is provided by S&P Dow Jones through FactSet®.

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