The Market's Up and You're Not? Here's Why

On Wall Street, it's often misleading to think that a rising tide lifts all boats. That's especially true this year, when much of the advance has been narrowly focused. If you have broadly diversified investments, you may be doing just fine.   If not, your portfolio is probably marking time while the media continues to report that the averages are moving higher.

Frustrating? Yes. Surprising? No. Let me explain.

As of this writing, Vanguard's S&P 500 ETF (VOO) is up 7.5% for the year to date. That appears to be an encouraging number, but it's really not. For one thing, it turns out that the five largest companies in the index have contributed almost half of that advance. Indeed, the average return from this elite group was 23.1% for the first five months. Which are they? Apple, Microsoft, Amazon, Facebook, and Johnson & Johnson. Altogether, they account for about 12% of the total capitalization of the S&P 500 Index.

If by chance, you didn't happen to hold just these five stocks, you still could have done well by sticking to the growth side of the index, which is available through a variety of ETFs including IVW, iShares S&P500 Growth ETF. Year to date, IVW is up 12.7%.

If your tack was toward the value side, things weren't so rosy, as evidenced by IVE, iShares S&P500 Value ETF, which crept up by only 1.9%.

Rather than comparing growth to value, let's look at large cap versus small cap. Here too, there's been a considerable difference in how things have shaped up. Instead of just considering the five biggest companies in terms of market cap, let's measure a broad slice of large cap against small cap. For the year to date, OEF, iShares S&P 100 ETF, was up 8.2%. Small cap has been a completely different story. JKJ, iShares Morningstar Small Cap ETF, actually slipped 1.2%.

In each of these comparisons, we've measured opposite sides of the U.S. market. Why not take a broader view? The simplest way to do so would be via a low-cost S&P 500 ETF such as SPY, the SPDR S&P ETF, which covers the whole index.

Want even more diversification? How about VTI, Vanguard's Total U.S. Market Index ETF, which is up 7.0% so far. If that's not enough, there's the broadest of all, VT, Vanguard's Total World Index ETF, which gained 10.4%. Talk about diversification.

If these appear to be of interest, be advised that they are all plain vanilla, all-equity solutions. They may be appropriate to fill some or all of the equity portion of your holdings, but be aware that the increased risk that comes along with equities will be part of the package.

For investors with time horizons of a couple of decades or more, that level of risk may be well worth taking. Those not in a position to look that far ahead will need to add shock absorbers such as fixed-income or alternative opportunity investments to moderate the inevitable price fluctuations that come along with participation in the equity markets.

By following this path, investors will increase the likelihood of keeping pace with most market advances (and retreats) without the necessity of constantly changing the holdings within their portfolios. Most of the effort required for portfolio monitoring will be rebalancing to maintain the percentages of their preferred asset allocation.

For many investors, this will be easier and more productive than continually rearranging the components of their portfolios in an attempt to catch the next wave.