

Diversification is the New Core

QS Investor's Diversification Based Investing Designed for Volatile Markets

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NEW YORK, March 9, 2016 /PRNewswire/ -- Investors had what certainly felt like a turbulent start to the year, as equity markets corrected again ending a period of extraordinarily low market volatility. While increased volatility has caught many investors by surprise, it has only returned to levels closer to its long term average, as measured by the Vix index, a key market indicator. While jarring, this new reality is important for investors to factor into their thinking.

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With growing uncertainty over global monetary policy, falling commodity prices, and other macro risks, market volatility is likely here to stay. So what are investors to do? Meeting their financial goals means staying invested for the long term, and investors would be wise to think more strategically about their equity market exposure. Many of today's investors rely on their core allocations, which typically combines stocks, bonds and other alternatives hoping to manage protection against the instability, with the understanding that no one asset class will always outperform. But is their core allocation doing what they expect it to do?

Michael J. LaBella, CFA, Portfolio Manager of QS Investors, says, "Diversification is a goal lauded by many investors, but often proves challenging to fully achieve, leaving themselves overexposed to certain forces in the market."

Mr. LaBella continued, "Many investors rely on passive indices like the S&P 500 for U.S. or the MSCI EAFE Index for International and, as a result, find themselves disappointed with the results in unstable markets. What they may not realize is the majority of market-capitalization indexes are heavily concentrated in a small number of sectors or international countries. This became very apparent after the Internet bubble burst, when the indices were heavily skewed toward technology companies."

After the Internet bubble 16 years ago, QS Investors embarked on research to find big-picture factors affecting returns. It identified the overarching sources of diversification to determine common drivers useful to better manage risk, while preserving the possibility of participating in the markets' upward trends. From these findings, the firm developed "Diversification Based Investing" (DBI), which is a different approach to diversification.

"Like asset classes, the performance of stocks based in different countries or in different economic sectors can vary significantly, depending on the market environment. Predicting the different themes that drive performance over time is challenging, and getting them wrong risks missing out on emerging opportunities, while being overexposed to certain risks," said Mr. LaBella.

Mr. LaBella explained that QS Investors focuses on staying "market-agnostic" and diversifies across investment themes to deliver more balanced equity exposure.

"Through DBI we seek to capture the upside trends of markets as they develop, as opposed to focusing on what worked in the past. Our methodology relies on enhanced diversification to control exposure to the downdrafts that may result from the economic cycle, swings in style performance, or episodic issues."

"The key advantage to the QS approach is that it's adaptive, not stagnant. It takes into account the ever evolving economic landscape, macro trends and investor sentiments, so investors are continuously diversified based on what matters, rather than what's just traditional," Mr. LaBella noted.

About Michael J. LaBella, CFA

Portfolio Manager Michael LaBella has been with QS Investors since 2010. He joined the firm from Deutsche Bank, where from 2005 to 2010 he was a portfolio manager for the quantitative strategies group, and an institutional sales trader in the corporate and investment bank. A Chartered Financial Analyst, he earned a B.S. in Financial Economics from Binghamton University.

About QS Investors

A wholly-owned, independently-managed affiliate of Legg Mason, Inc., QS Investors, LLC was formed in 1999 as the quantitative platform of a global asset manager. As an investment firm providing asset management and advisory services to a diverse array of institutional clients, QS Investors delivers disciplined, systematic solutions that address clients' complex challenges. The QS team has developed unique approaches to integrating quantitative and behavioral investment insights and dynamically weighting opportunities in response to changing economic and market conditions. Risk identification, assessment and management are intrinsic to their process. Based in New York, QS Investors offers a broad spectrum of strategies to clients worldwide including actively managed U.S. and global equities, liquid alternatives and customized solutions.

About Legg Mason

Legg Mason is a global asset management firm with \$651.5 billion in assets under management as of January 31, 2015. The Company provides active asset management in many major investment centers throughout the world. Legg Mason is headquartered in Baltimore, Maryland, and its common stock is listed on the New York Stock Exchange (symbol: LM).

DEFINITIONS

S&P 500 Index is an unmanaged index of common stock performance. Please note an investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a measure of market expectations of near-term volatility as conveyed by S&P 500 stock index option prices.

MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East & Africa. Please note an investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Diversification does not guarantee a profit or protect against a loss.

QS Investors investment platform is comprised of QS Investors, LLC, QS Batterymarch Financial Management, Inc. and QS Legg Mason Global Asset Allocation (QS LMGAA).

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