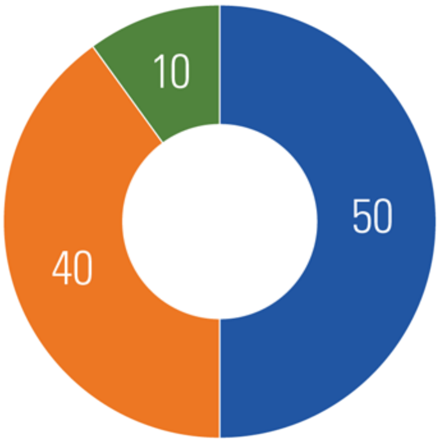
The Role of REITs in a Portfolio

Potential to increase returns (1972–2021)

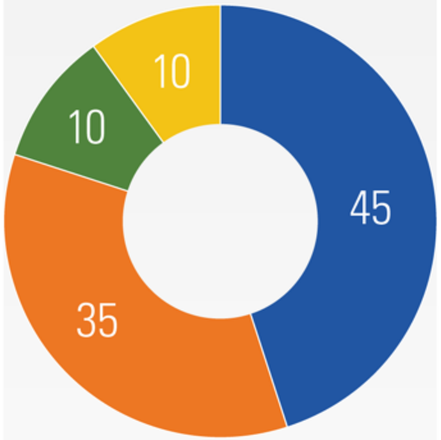
- Stocks
- Bonds
- Treasury Bills
- REITs

Stocks and Bonds



Return(%)	10.2
Risk(%)	9.9

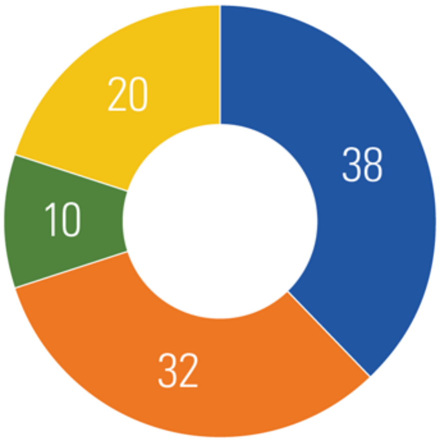
With 10% REITs



Return(%)	10.5
Risk(%)	9.9

Past	3 Year	5 Year	10 Year
Return(%)	16.8	12.2	10.7
Risk(%)	4.2	8.8	7.3

With 20% REITs



Return(%)	10.7
Risk(%)	9.9

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Stocks—Ibbotson® Large Company Stock. Bonds—20-year U.S. government bond. Treasury bills—30-day U.S. Treasury bill. REITs—FTSE NAREIT All Equity REIT Index®. An investment cannot be made directly in an index.

The Role of REITs in a Portfolio

Real Estate Investment Trusts (REITs) have unique characteristics that may make them attractive to both income and growth investors. REITs trade like stocks and can fluctuate in price, but they also pay out a large part of their income in the form of dividends. REITs may be used to help provide income in conservative portfolios or long-term growth in more aggressive portfolios. Some portion of a portfolio may be appropriately allocated to REITs for a broad range of investor types.

The image illustrates risk-and-return profiles for three hypothetical portfolios from 1972 to 2021, and for the 10% REIT portfolio over the last 3, 5, and 10 years. Adding a 10% allocation to REITs in a stock, bond, and cash portfolio increased return from 10.2% to 10.5%. Adding a 20% allocation to REITs further increased return to 10.7% while maintaining the same level of risk.

Because stocks, bonds, cash, and REITs generally do not react identically to the same economic or market stimuli, combining these assets may produce a more appealing risk-and-return trade-off. This makes REITs a potentially good candidate for investors looking to build a diversified portfolio, whether for long-term growth or for income.

Methodology: The allocations herein are intended to represent simplified portfolios for moderate (50% equity/50% fixed-income to 60% equity/40% fixed-income) investors. The portfolios represented are not Morningstar recommendations and should not be viewed as investment advice. The 1972 start date is constrained by the maximum available historical data for REITs. In order to analyze the impact of REITs on the portfolio's risk and return, 10% and 20% REIT allocations were added to the initial portfolios. Return was calculated by the arithmetic annual return and risk by the annual standard deviation. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. No optimizations were used in this analysis. Portfolios were rebalanced annually. The result of this analysis illustrates that adding REITs to a portfolio has the potential to increase return through diversification.

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