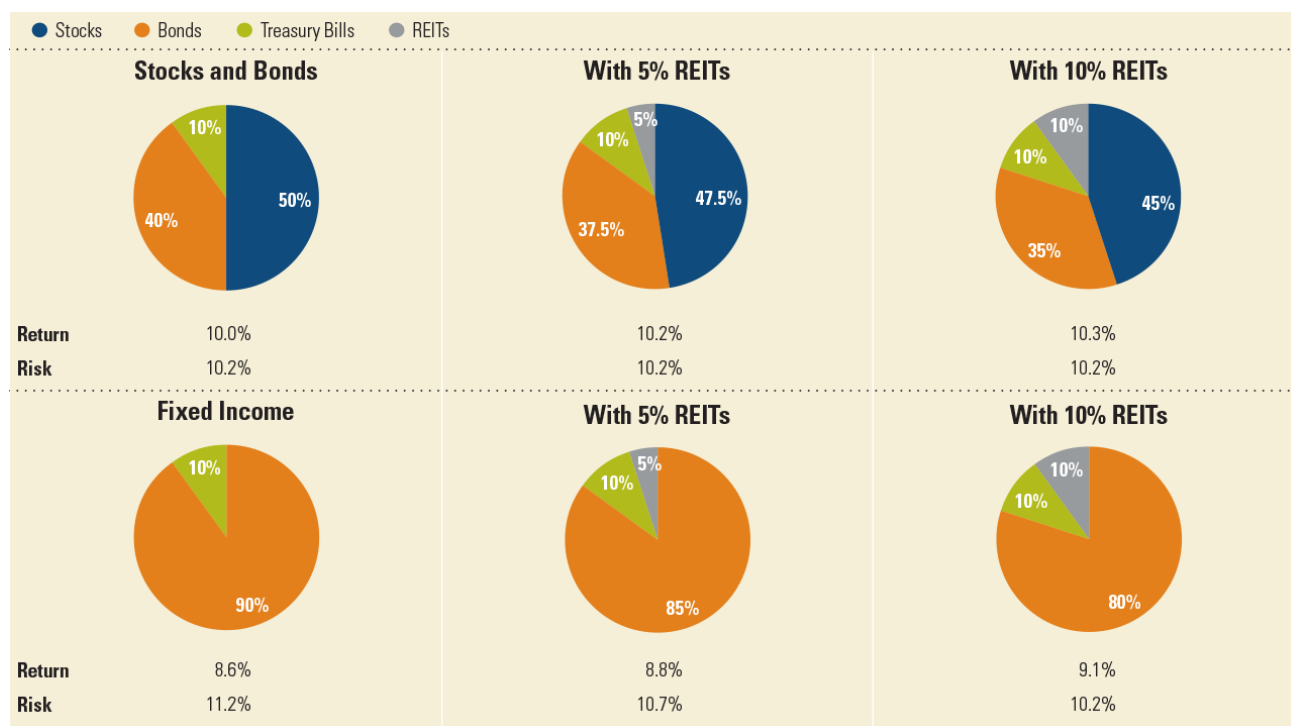


The Role of REITs in a Portfolio

Potential to increase returns or reduce risk, 1972–2015



There may be a place for 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.

Reconstruct your portfolio to include REITs

The image illustrates the risk-and-return profiles of six hypothetical portfolios. Adding a 10% allocation to REITs in a stock, bond, and cash portfolio increased return from 10.0% to 10.3%. Adding a 10% allocation to REITs in a fixed-income portfolio decreased risk from 11.2% to 10.2%.

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 you are an investor seeking long-term growth or income, you may want to consider finding a place for REITs in your portfolio.

Methodology: The allocations herein are intended to represent simplified portfolios for moderate (50% equity/50% fixed-income) and conservative (90%–100% 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, 5% and 10% REIT allocations were added to the initial portfolios. Return was calculated by the arithmetic annual return and risk by 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. The result of this analysis illustrates that adding REITs to a portfolio may either increase return, decrease risk, or, in some cases, both.

REIT investments are not suitable for all investors. Past performance is no guarantee of future results. Diversification does not eliminate the risk of experiencing investment losses. An investment cannot be made directly in an index. This is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Capital gains and dividends received may be taxed in the year received. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Bonds in a portfolio are typically intended to provide income and/or diversification. U.S. government bonds may be exempt from state taxes, and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government. Stocks and REITs are not guaranteed and have been more volatile than bonds. Stocks provide ownership in corporations that intend to provide growth and/or current income. REITs typically provide high dividends plus the potential for moderate, long-term capital appreciation. A REIT must distribute at least 90% of its taxable income to shareholders annually. REITs involve special risks such as management quality, corporate structure, the ability to increase revenues from rents, and the balance of the supply of new buildings with demand for space. Additional risks include general and local economic conditions, interest rate fluctuation, credit risks, and liquidity risks. Holding REITs for the long term does not ensure a profitable outcome and investing in REITs always involves risk, including the possibility of losing the entire investment. The information, data, analyses and opinions contained herein do not constitute investment advice offered by Morningstar and are provided solely for informational purposes.

Source: Stocks—Standard & Poor's 500[®], which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general; Bonds—20-year U.S. Government Bond; Treasury Bills—30-day U.S. Treasury Bill; REITs—FTSE NAREIT All Equity REIT Index[®].