LoCorr Chart Series

Think Outside the (Style) Box for Diversification

The style box has historically been an important guide when it comes to diversifying portfolios. However, over the last decade, we have seen a change in the investment landscape. In the past, the various sectors within the style box had lower correlations to one another. More recently, this has not been the case. As shown below, the different style boxes are in fact highly correlated to one another.

Correlations to the S&P 500 Total Return Index - 1/1/2013 to 12/31/2023

	Value	Blend	Growth
Large	0.95	1.00	0.96
Medium	0.92	0.95	0.93
Small	0.84	0.87	0.86

Source: Morningstar

For equity funds the vertical axis shows the market capitalization of the long stocks owned and the horizontal axis shows investment style (value, blend, or growth). A darkened square in the style box indicates the weighted average style of the portfolio.

Large Value represents the Russell 1000 Value Index which is an unmanaged index considered representative of large-cap value stocks. **Large Blend** represents the Russell 1000 Index which is an unmanaged index considered representative of large-cap stocks. **Large Growth** represents the Russell 1000 Growth Index which is an unmanaged index considered representative of large-cap growth stocks. **Medium Value** represents the Russell Midcap Value Index which is an unmanaged index considered representative of mid-cap value stocks. **Medium Blend** represents the Russell Midcap Index which is an unmanaged index considered representative of mid-cap stocks. **Medium Growth** represents the Russell Midcap Growth Index which is an unmanaged index considered representative of mid-cap growth stocks. **Small Value** represents the Russell 2000 Value Index which is an unmanaged index considered representative of small-cap value stocks. **Small Blend** represents the Russell 2000 Index which is an unmanaged index considered representative of small-cap stocks. **Small Growth** represents the Russell 2000 Growth Index which is an unmanaged index considered representative of small-cap growth stocks.

Key Takeaways

- Style boxes are now highly correlated to one another.
- For advisors whose primary objective is diversification, an optimal correlation might range between -0.5 to 0.5.
- Investors may need to seek strategies that offer low correlation to stocks and bonds.

Diversification does not assure a profit or protect against loss in a declining market. Correlation measures how much the returns of two investments move together over time.

The Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.855.LCFUNDS, or visiting www.LoCorrFunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Non-diversified investments may concentrate assets in fewer individual holdings than diversified investments. Therefore, the investments are more exposed to individual stock volatility than diversified funds. The Funds invest in foreign investments and foreign currencies which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. The Funds may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Investing in commodities may subject the Funds to greater risks and volatility as commodity prices may be influenced by a variety of factors including unfavorable weather, environmental factors, and changes in government regulations. The Funds may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks, and, depending upon the characteristics of a particular derivative, suddenly can become illiquid. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed, Mortgage-Backed, and Collateralized Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in small- and medium-capitalization companies involve additional risks such as limited liquidity and greater volatility. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. ETF investments are subject to investment advisory and other expenses, which will be indirectly paid by the Funds. As a result, the cost of investing in the Funds will be higher than the cost of investing directly in ETFs and may be higher than other mutual funds that invest directly in stocks and bonds. ETFs are subject to specific risks, depending on the nature of the ETF. A Fund's real estate portfolio may be significantly impacted by the performance of the real estate market generally, and the Fund may be exposed to greater risk and experience higher volatility than would a more economically diversified portfolio. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural, or technological developments. Investments in Limited Partnerships (including master limited partnerships) involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the Limited Partnership, risks related to potential conflicts of interest between the Limited Partnership and the Limited Partnership's general partner, cash flow risks, tax risk, dilution risks and risks related to the general partner's limited call right. Underlying Funds are subject to management and other expenses, which will be indirectly paid by the Fund. Investments in Real Estate Investment Trusts (REITs) involve additional risks such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments. Past performance is not a guarantee of future results. Diversification does not assure a profit nor protect against loss in a declining market.