



Fourth Quarter 2025 Market Commentary

Joseph Bonacci, CFA, Portfolio Manager

Quilt charts have slowly become outdated

Although color-coded asset class return tables—commonly known as quilt charts for their patchwork appearance—have been a mainstay of the financial advisor’s toolkit for decades, we believe they have slowly lost relevancy coinciding with the democratization of financial information. Quilt charts rank asset class returns by year which ostensibly demonstrates the importance of diversification by illustrating the routine change of leaders and laggards through the passage of time. Although emphasizing the benefits of diversification is meritorious, we believe more nuanced topics have grown in importance among the investing public. Moreover, absolute returns have been quite robust even as leadership cycled, with eight of the last fifteen calendar years exhibiting strong returns up and down the investment opportunity set.

More thoughtful sorting methods exist

We believe a more innovative way to sort returns is by asset class independent of time which yields more than one salient observation. This method reveals patterns that are more meaningful to investors like the dispersion of an asset class’s return or the absence of negative correlation during a period of crisis, the exact time when diversification is needed the most (e.g. 2015, 2018, 2022). Finally, diversification is executed by allocating among a small set of assets exhibiting opposing factors, not the myopic inclusion of every asset class in the investment universe.

One of the weaknesses of quilt charts is their reliance on an outdated and vague categorization schema. For example, domestic large value simply indicates the firm’s headquarters is in the United States and is a mature, stable company competing in an established industry. It is more intuitive to categorize securities by their distinguishing characteristics. Just as we classify people and countless other aspects of life by their defining characteristics, stocks should be organized using the same principle. A person’s height, weight, and the color of their skin, eyes and hair are among the many features used to group people. Likewise, the literature has identified six distinguishing characteristics exhibited by stocks that may be used to group them into cohorts that facilitate relevant observations. A key observation is the momentum and quality factors exhibit a tendency to overlap as shown by the

proximity to one another. Even in years when the factors are not ranked consecutively, they each produced robust returns. For example, momentum’s return was ranked fifth out of six but still managed to return 27.44% in 2019. It even returned 12.64 percent in 2021 despite being ranked last.

2025	2024	2023	2022	2021	2020	2019
MSCI USA Growth	MSCI USA Growth	MSCI USA Growth	MSCI USA Value	MSCI USA Barra Low Volatility	MSCI USA Growth	MSCI USA Quality
MSCI USA Momentum	MSCI USA Momentum	MSCI USA Quality	MSCI USA Barra Low Volatility	MSCI USA Quality	MSCI USA Momentum	MSCI USA Growth
MSCI USA Quality	MSCI USA Barra Low Volatility	MSCI USA Barra Low Volatility	MSCI USA LOW Size	MSCI USA Value	MSCI USA Quality	MSCI USA Barra Low Volatility
MSCI USA Value	MSCI USA Quality	MSCI USA LOW Size	MSCI USA Momentum	MSCI USA Growth	MSCI USA LOW Size	MSCI USA LOW Size
MSCI USA LOW Size	MSCI USA LOW Size	MSCI USA Momentum	MSCI USA Quality	MSCI USA LOW Size	MSCI USA Barra Low Volatility	MSCI USA Momentum
MSCI USA Barra Low Volatility	MSCI USA Value	MSCI USA Value	MSCI USA Growth	MSCI USA Momentum	MSCI USA Value	MSCI USA Value

What diversification is and isn't

Investors do not benefit from spreading their money across a wide swath of highly correlated assets and hoping for the best. Instead, the literature has identified several techniques and asset classes with the ability to enhance diversification during a period of crisis. In order of effectiveness, they are:

Options

Long maturity treasuries

Precious metals

The suitability and effectiveness of each option depends on the client's unique circumstances. A sound decision-making framework should weigh multiple factors, including cost, scalability, time horizon, and the size of investable assets.

This exercise demonstrates how we experiment by viewing data through a different lens in pursuit of deeper and more relevant insights. Please visit us at SierraRidgeAdvisorGroup.com to learn more about how our unique insights help investors make better decisions.

Asset Class	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	σ
Domestic Large Growth	16.71%	2.64%	15.26%	33.48%	13.05%	5.67%	7.08%	30.21%	-1.51%	36.39%	38.49%	27.60%	-29.14%	42.68%	33.36%	18.7%
Domestic Small Growth	29.09%	-2.91%	14.59%	43.30%	5.60%	-1.38%	11.32%	22.17%	-9.31%	28.48%	34.63%	2.83%	-26.36%	18.66%	15.15%	17.6%
Emerging Markets	18.88%	-18.42%	18.22%	-2.60%	-2.19%	-14.92%	11.19%	37.28%	-14.58%	18.44%	18.31%	-2.54%	-20.09%	9.83%	7.50%	16.2%
Domestic Small Value	24.50%	-5.50%	18.05%	34.52%	4.22%	-7.47%	31.74%	7.84%	-12.86%	22.39%	4.63%	28.27%	-14.48%	14.65%	8.05%	15.5%
Foreign Developed	7.75%	-12.14%	17.32%	22.78%	-4.90%	-0.81%	1.00%	25.03%	-13.79%	22.01%	7.82%	11.26%	-14.45%	18.24%	3.82%	13.0%
Domestic Large Value	15.51%	0.39%	17.51%	32.53%	13.45%	-3.83%	17.34%	13.66%	-8.27%	26.54%	2.80%	25.16%	-7.54%	11.46%	14.37%	12.0%
Corporate High Yield	15.12%	4.98%	15.81%	7.44%	2.45%	-4.47%	17.13%	7.50%	-2.08%	14.32%	7.11%	5.28%	-11.19%	13.45%	8.19%	7.8%
IG Credit	8.47%	8.35%	9.37%	-2.01%	7.53%	-0.77%	5.63%	6.18%	-2.11%	13.80%	9.35%	-1.08%	-15.26%	8.18%	2.03%	7.0%
Investment Grade Bonds	6.54%	7.84%	4.21%	-2.02%	5.97%	0.55%	2.65%	3.54%	0.01%	8.72%	7.51%	-1.54%	-13.01%	5.53%	1.25%	5.3%
Treasury Bonds	5.87%	9.81%	1.99%	-2.75%	5.05%	0.84%	1.04%	2.31%	0.86%	6.86%	8.00%	-2.32%	-12.46%	4.05%	0.58%	5.2%

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.