FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer



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When constructing and managing portfolios, consideration is given to not only the individual funds determined to best position client money for growth, but how collectively each of the funds work together. Total portfolio risk and total portfolio return can be minimized and maximized (respectively) by combining asset classes that behave differently at different times.

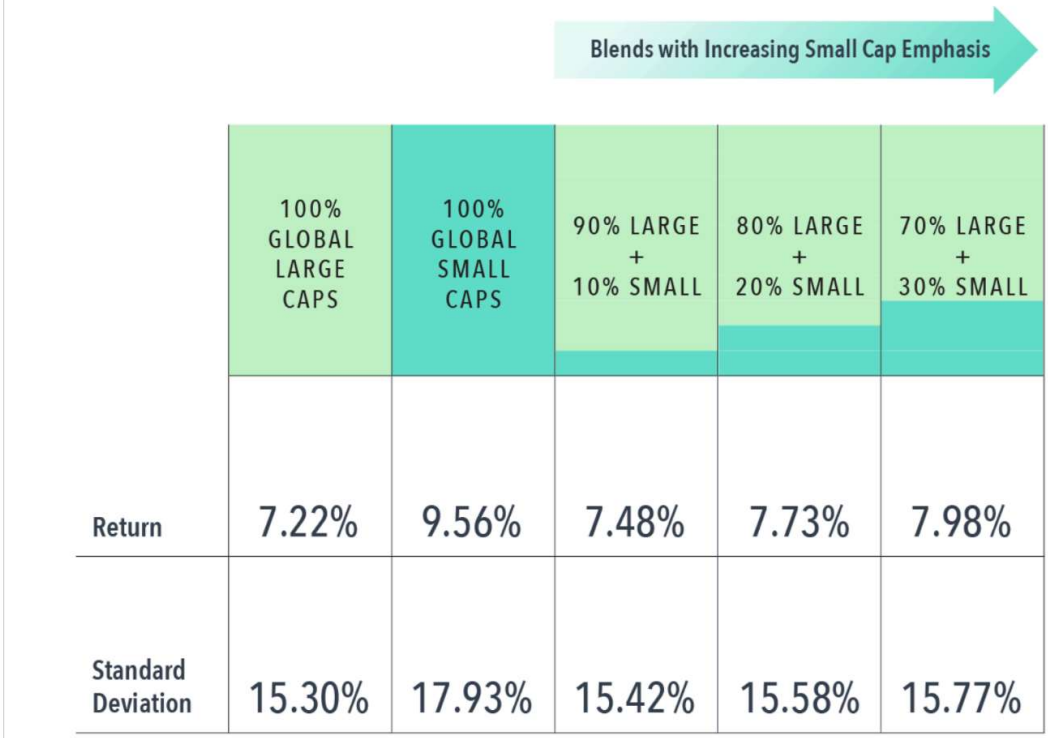
Portfolios that include funds with lower correlations (even negative correlations) smooth year-over-year volatility, while enhancing overall performance. To make this point, our asset allocation models include both small and large capitalization stocks. Historically, small cap stocks have had higher volatility than large cap stocks. The annualized standard deviation of a global small cap index from January 1999 to June 2026 was 17.93%, compared to 15.30% for global large caps. But the variability of an investor's account balance depends on the entirety of the portfolio, not its individual components. Small caps behave differently from large caps and therefore offer a diversification benefit when added to the equation. The net effect for combining large and small caps is standard deviations very similar to the large caps themselves. Returns, on the other hand, meaningfully increased with increasing weight in small caps.

This concept of evaluating volatility holistically rather than in a vacuum is old news, of course. The Nobel laureate Harry Markowitz spelled this out 70 years ago in his Modern Portfolio Theory framework. But it's a good reminder that for any asset category, risk and return statistics in isolation do not provide a complete recipe to evaluate it.

Thanks for reading!

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