Sector Investing — Video Transcript

Stocks in the S&P 500 Index are classified into 11 business sectors: communication services, consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, real estate, and utilities.

Each sector responds differently to market conditions.

Some sectors tend to perform well when the economy is strong. But they can turn downward as quickly as they rise when conditions change.

Other sectors are considered “defensive” and may be good to hold through a bear market or recession, because businesses in these sectors tend to remain strong regardless of economic conditions.

Sectors also vary in size and the effect they have on the index as a whole.

Like many broad-based indexes, the S&P 500 is weighted based on market capitalization, which is the total value of a company’s outstanding stock. The largest companies by stock value have the most effect on index performance. This is also true of the largest sectors.

In recent years, the largest sector by far has been information technology, which includes some of America’s biggest companies. Other large sectors by market cap are financials, health care, consumer discretionary, and communication services.

If you invest primarily in funds that track the S&P 500 or other broad-based indexes, you may be more heavily invested or less invested in a given sector than you realize.

The appropriate sector weighting for your stock portfolio depends on your goals, risk tolerance, and economic outlook.

One way to shift the sector weighting in your portfolio is by holding funds that focus on stocks of companies in a particular industry or business sector.

Sector funds are less diversified than a broad-based index fund and typically carry a higher level of volatility, so they are generally used as a complement to a core portfolio of diversified funds rather than a replacement.

It may be tempting to chase performance and move money into sectors that are “hot” today. But sector performance is cyclical and last year’s hot sector can easily turn cold.

Any sector adjustments should be based on a comprehensive strategy.

The return and principal value of all investments, including sector funds, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The S&P 500 is an unmanaged group of securities generally considered representative of the U.S. stock market. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.