Morgan Stanley

THE MURRAY LEGACY GROUP
AT MORGAN STANLEY

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Issue #8: Asset Allocation: Getting the Big Decisions Right

When most investors evaluate performance, the focus tends to be on individual holdings – which stock outperformed, which fund lagged, or whether a recent decision was "right".

But over long periods of time, portfolio outcomes are driven less by individual selections and more by asset allocation – how investments are divided among broad categories such as equities, fixed income, and other asset classes.

For attorneys balancing demanding careers and long-term financial goals, getting these broader structural decisions right often matters more than near-term tactical adjustments.

Why Asset Allocation Matters

Asset allocation determines:

1. How much volatility a portfolio may experience;
2. How resilient it may be during market downturns; and
3. How effectively it supports long-term growth.

Asset allocation determines how a portfolio responds to different market environments. Periods of strong equity growth, rising interest rates, economic slowdowns, or unexpected shocks affect asset classes in different ways. The balance between equities, fixed income, and other investments largely determines how a portfolio experiences these changes.

Rather than attempting to anticipate each market shift, a disciplined allocation framework is designed to build resilience across a range of potential outcomes.

For many attorneys, strong earning power provides financial stability. That stability can make market volatility less impactful, particularly during extended periods of strong performance. A disciplined allocation framework helps ensure risk levels remain aligned with long-term objectives, regardless of income strength.

What Drives the Right Allocation?

There is no universally "correct" Allocation. Instead, it should reflect:

- Time horizon;
- Income stability;
- Liquidity needs;
- Comfort with volatility; and
- Long-Term objectives.

An allocation should be designed intentionally, not drift over time based on recent performance or short-term sentiment.

Practical Planning Considerations

Asset Allocation is not something to revisit every time markets move. However, it is worth reassessing when circumstances change, such as career transitions, partnership opportunities, major purchases, or evolving family responsibilities.

Over time, disciplined rebalancing and intentional allocation decisions tend to have a greater impact on outcomes than short-term tactical shifts. The goal isn't to predict market movements, but to build a structure that can support progress across different environments.

Looking Ahead

Long-term investment success is rarely determined by reacting to short-term market movements. More often, it reflects a clear framework that guides decisions across different market environments. Asset allocation is one of those foundational choices, shaping how a portfolio behaves through both favorable and challenging periods.

Thanks for reading this issue of ***Well Advised***. We hope this overview of asset allocation provides helpful context as you evaluate how your portfolio is structured, and if any of this raises questions about how your investments are allocated, we'd be happy to talk.

Adam J. Murray, CFP®, CPM®
Managing Director, Wealth Management
Financial Advisor & Family Wealth Director
Global Sports & Entertainment Director
The Murray Legacy Group at Morgan Stanley

Chart of the Month: Asset Class Returns

This chart illustrates a core reality of investing: leadership rotates. Different asset classes tend to perform differently from year-to-year, and the top-performing category often changes as market conditions shift. Over time, this reinforces the value of maintaining a thoughtful mix of investments rather than relying on any single asset class to lead consistently.

2011 - 2025																
Ann.	Vol.	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	YTD
Large Cap 14.1%	Small Cap 20.3%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 25.0%	EM Equity 34.4%	Comdty. 10.4%
Small Cap 9.5%	EM Equity 17.5%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	Small Cap 11.5%	DM Equity 31.9%	EM Equity 8.9%
REITs 7.8%	REITs 16.4%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Asset Alloc. 10.0%	Large Cap 17.9%	Small Cap 5.4%
Asset Alloc. 7.3%	DM Equity 15.7%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	High Yield 9.2%	Asset Alloc. 15.8%	DM Equity 5.2%
DM Equity 7.1%	Comdty. 15.4%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	EM Equity 8.1%	Comdty. 15.8%	Asset Alloc. 2.9%
High Yield 5.7%	Large Cap 14.7%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	Comdty. 5.4%	Small Cap 12.8%	REITs 2.8%
EM Equity 4.2%	Asset Alloc. 10.1%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	Cash 5.3%	High Yield 12.1%	Large Cap 1.5%
Fixed Income 2.4%	High Yield 9.1%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	REITs 4.9%	Fixed Income 7.3%	High Yield 1.0%
Cash 1.5%	Fixed Income 4.6%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	DM Equity 4.3%	Cash 4.3%	Cash 0.3%
Comdty. -1.1%	Cash 0.9%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%	Fixed Income 1.3%	REITs 2.3%	Fixed Income 0.1%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. U.S. Data as of January 30, 2026.

Explaining the Chart:

The chart above looks at the annual returns for a range of different asset classes across a 15-year time-period. It has everything from stocks and bonds to commodities and cash. On the far-left side of the chart, we show both the annualized return and annualized volatility over the last 15 years for each asset class. Cutting through the middle of the chart is a hypothetical diversified portfolio composed of different weights of these asset classes.

Our Perspective:

For many investors, it's tempting to evaluate an investment strategy by focusing on the most recent winner. When asked how 401(k) allocations were chosen, a common answer is simply, "I picked the one that did the best last year". This chart is a reminder that markets rarely move in a straight line, and asset class leadership is constantly changing.

A disciplined asset allocation framework is designed to account for that uncertainty. By building a portfolio with exposure to multiple asset classes – and rebalancing over time – the goal is to participate in long-term growth without needing to predict which category will lead next.

You Asked, We Answered

Each month the newsletter will include a reader-submitted question and our take on it. If there's a topic you'd like us to explore – or something you've been wondering about – we'd love to hear from you.

Question: "How often should I rebalance my portfolio?"

Our Take:

Rebalancing is the process of restoring a portfolio to its intended asset allocation after market movements cause certain investments to become a larger or smaller portion of the portfolio than originally intended.

For example, following a strong period for equities, the stock portion of a portfolio may represent a larger percentage than originally intended or after a market pullback, a smaller one. Rebalancing involves adjusting exposures to bring the portfolio back in line with its target allocation.

In many cases, portfolios are reviewed for rebalancing on a periodic basis — such as annually or semi-annually — or when allocations drift beyond a predefined range. The objective is not to react to short-term market movements, but to maintain discipline and preserve the portfolio's intended risk profile.

Importantly, rebalancing is not about predicting which asset class will perform best next. Instead, it reinforces the broader allocation framework and helps prevent unintended shifts toward greater concentration or volatility.

In taxable accounts, rebalancing may also involve capital gain considerations, which is why implementation should be coordinated thoughtfully within the context of an overall tax strategy.

Left unattended, portfolios can gradually diverge from their intended design. A consistent rebalancing process helps ensure that allocation, risk tolerance, and long-term objectives remain aligned over time.

Thanks for reading this issue of ***Well Advised***. If you'd like to submit a question for a future edition – or talk more about anything we covered today – we'd love to hear from you. Let's keep the conversation going.

Meet the Murray Legacy Group

Attorney Team

Adam J. Murray, CFP®, CPM®
Managing Director, Wealth Management
Financial Advisor & Family Wealth Director
Global Sports & Entertainment Director
Direct: 610-260-7009
Adam.Murray@morganstanley.com
NMLS #2317486

Philippa J. Lumsden, CFP®
Vice President, Wealth Management
Financial Advisor
Financial Planning Specialist
Direct: 610-260-7044
Philippa.Lumsden@morganstanley.com
NMLS #2317486

Corporate Executive Team

Brian J. Degnan, CFP®
Senior Vice President, Wealth Management
Financial Advisor & Senior Portfolio Management Director
Direct: 610-260-7011
Brian.Degnan@morganstanley.com
NMLS #1456519

David P. Drea, CFP®
Financial Advisor, Wealth Management
Workplace Advisor – Equity Compensation
Financial Planning Specialist
Direct: 610-260-7013
David.Drea@morganstanley.com
NMLS #2056666

Sports & Entertainment Team

Adam J. Murray, CFP®, CPM®
Managing Director, Wealth Management
Financial Advisor & Family Wealth Director
Global Sports & Entertainment Director
Direct: 610-260-7009
Adam.Murray@morganstanley.com
NMLS #2317486

Katelyn E. Goodwin
Financial Advisor, Wealth Management
Financial Planning Specialist
Direct: 401-845-3514
Katelyn.Goodwin@morganstanley.com
NMLS #2631787

Matthew C. Carroll
Financial Advisor, Wealth Management
GSE Associate Director
Direct: 610-260-7464
Matthew.Carroll@morganstanley.com
NMLS #2806914

Support Professionals

Samantha L. Staudt
Business Development Associate
Financial Planning Specialist
Direct: 610-260-7045
Samantha.Staudt@morganstanley.com

Amara M. Mulloy
Registered Client Service Associate
Direct: 610-260-7348
Amara.Mulloy@morganstanley.com

Brett M. Mallee
Registered Client Service Associate
Direct: 610-260-7273
Brett.Mallee@morganstanley.com

Sabine M. de Ruijter
Client Relationship Analyst
Financial Planning Specialist
Direct: 610-260-7272
Sabine.De.Ruijter@morganstanley.com

Olivia C. Kelley
Client Service Associate
Direct: 610-260-7212
Olivia.Kelley@morganstanley.com

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