



Cutting Through the Noise: When "Diversified" Isn't Diversified



INSIDE, WE
ALSO
TALK
ABOUT:

True
Diversification

Systems of
Behaviors

The
Opportunity
Reserve

In December, we introduced the idea that one can "win by not losing," and highlighted the mathematics—and importance—of controlling drawdown: the peak-to-trough decline an investment experiences before recovering.

This month, we want to illustrate one of the most effective tools for reducing the likelihood of large drawdowns: true diversification.

Diversification is one of the most widely used words in investing—and one of the most misunderstood.

While nearly every portfolio claims to be diversified, many are not diversified in the ways that matter most.



Over the years, we've reviewed countless client statements—often before those investors became clients. In many cases, what we observed looked far more like the image to the right (top) than the other on the right (bottom):

At first glance, both portfolios may appear diversified. The difference is not how many investments each contains—but how they behave when conditions change.

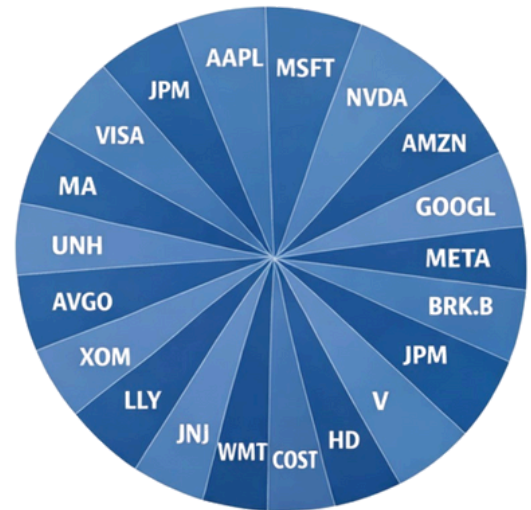
In the portfolio on top, the holdings are different companies, but they share many of the same underlying drivers: economic growth, liquidity conditions, interest rates, and investor risk appetite. When those forces turn negative, the investments tend to move together. What appears diversified on paper can quickly behave like a single concentrated bet.

The portfolio on the bottom is structured differently. Each component plays a distinct role. Equities participate in growth. Fixed income provides stability during periods of economic stress. Gold and real assets can respond to inflation, currency debasement, or crisis. Hedge fund strategies are designed to seek returns from dispersion, volatility, or inefficiency—often independent of broad market direction.

This is the essence of true diversification: not simply owning more investments, but owning investments that respond differently to the same environment.

At Carrera, we think of portfolios not as collections of securities, but as systems of behaviors. Each allocation has a job to do—and the success of the portfolio depends less on any single outcome than on how the pieces interact across a full market cycle. This approach won't always lead performance in the most concentrated, momentum-driven markets. But it is designed to reduce the risk of large, permanent losses, especially during the periods when diversification matters most.

20 stocks. One dominant economic driver.



4 return drivers. Multiple economic responses.



Diversification isn't about how many things you own. It's about how those things **behave** when markets change.

We've discussed how avoiding deep drawdowns is one of the most reliable ways to improve long-term outcomes. True diversification is one of the primary tools that allows us to do that.

Our goal is not to predict the next market narrative or chase the latest winners. It is to build portfolios that can endure a wide range of outcomes—so clients are not forced to make difficult decisions at the worst possible times.

That is how we aim to win by not losing.



Financial Planning Tidbit

The "Opportunity Reserve"



Most people think of cash as either emergency money or spending money.

But high-quality plans often include a third bucket: an Opportunity Reserve.

This is a dedicated pool of liquid capital set aside not for emergencies, but for intentional action — investing during market dislocations, funding a business idea, helping a child at the right moment, or taking advantage of an opportunity.

Why it works:

- It creates confidence to act
- It reduces the temptation to disrupt long-term investments
- It turns liquidity into a strategic advantage, not a drag
- Reserve cash is still realizing optimal returns when professionally managed

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January 2026 Returns

S&P 500 +1.47% || Dow 30 +1.8% || Nasdaq 100 +1.23% || Aggregate Bonds +.25% || LT Treasuries -.03%
T-Bills +.30% || Int'l Developed +4.90% || Emerging Markets +8.00% || GSCI Commodity +10.50%
|| U.S.D -.66% ||

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We use total returns that include the dividends and the expenses charged to investors for holding funds that track all corresponding benchmark indexes, so-called "Index Funds". Total returns use dividend-adjusted closing prices from Yahoo Finance as a raw input. Calculations are conducted in the R programming language by Carrera Capital Advisors.

The index returns for the month also utilize index funds that are designed to track an underlying index. Additional disclosures on each fund:

S&P 500 – iShares Core S&P 500 ETF ("IVV")

The Fund seeks to track the investment results of the S&P 500, which measures the performance of the large-capitalization sector of the U.S. equity market, as determined by S&P Dow Jones Indices LLC (the "Index Provider" or "SPDJI").

Dow 30 – SPDR Dow Jones Industrial Average ETF Trust ("DIA")

The Trust seeks to achieve its investment objective by holding a portfolio of the common stocks that are included in the Dow Jones Industrial Average (DJIA), with the weight of each stock in the portfolio substantially corresponding to the weight of such stock in the DJIA.

Aggregate Bonds – iShares Core U.S. Aggregate Bond ETF ("AGG")

The iShares Core U.S. Aggregate Bond ETF (the "Fund") seeks to track the investment results of an index composed of the total U.S. investment-grade bond market.

LT Treasuries – iShares 20+ Year Treasury Bond ETF ("TLT")

The iShares 20+ Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than twenty years.

T-Bills – SPDR Bloomberg 1-3 Month T-Bill ETF ("BIL")

The SPDR Bloomberg 1-3 Month T-Bill ETF (the "Fund") seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of an index that tracks the 1-3 month sector of the United States Treasury Bill market.

Int'l Developed – iShares MSCI EAFE ETF ("EFA")

The iShares MSCI EAFE ETF (the "Fund") seeks to track the investment results of an index composed of large- and mid-capitalization developed market equities, excluding the U.S. and Canada.

Emerging Markets – iShares MSCI Emerging Markets ETF ("EEM")

The Fund seeks to track the investment results of the MSCI Emerging Markets Index, which is designed to measure equity market performance in the global emerging markets.

Commodities – iShares S&P Goldman Sachs Commodity Index Trust ("GSG")

The Trust seek to replicate the performance of the S&P GSCI Excess Return Index (S&P GSCI-ER), together with collateral assets consisting of cash, U.S. Treasury securities or other short-term securities that are eligible as margin deposits for index futures on the S&P GSCI-ER.

REITs – SPDR Dow Jones Global Real Estate ETF ("RWO")

The SPDR Dow Jones Global Real Estate ETF (the "Fund") seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of an index based upon the global real estate market

U.S.D. – Invesco DB US Dollar Bullish Fund ("UUP")

The Invesco DB US Dollar Index Bullish (Fund) seeks to track changes, whether positive or negative, in the level of the Deutsche Bank Long USD Currency Portfolio Index – Excess

Return™ (DB Long USD Currency Portfolio Index ER or Index) plus the interest income from the Fund's holdings of primarily US Treasury securities and money market income less the Fund's expenses