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Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals with our actively managed family of mutual funds.

We hope you enjoy this edition of the [VLFAAlert](#) and thank you for your continued support.

Does Diversification Still Matter?

Stocks and bonds historically have had relatively low correlation. However, in calendar year 2022, returns of both equities and fixed income were negative. As we begin a new year, maintaining perspective, both historical and for your own long-term investment goals, is important. What is the importance of portfolio diversification? Does diversification work in today's market conditions? Why does diversification still matter? Here are some thoughts to consider.

The Theory Behind Diversification

Diversification, both by asset class and within the equity market itself, does not ensure a profit or guarantee against a loss. Investors will read that in every hedge clause of every article, including this one, because it's true. We saw it this past year in a rare but not unprecedented time when both equity and fixed income markets declined. But the fundamental logic underlying diversification remains sound, potentially providing portfolios a downside cushion and reducing the effect of market volatility. Most investment professionals agree it is the single most important component of reaching long-term financial goals while mitigating risk.

Diversification of your investment portfolio is the practice of holding a variety of investments and asset classes with the goal of balancing risk and reward. In other words, seeking to improve your risk-adjusted returns. It is often thought of as the first step in risk management because unless the correlation between asset classes is perfect, investors will see the benefits of having both stocks and bonds, among other types of investments, in their portfolios. The theory is that spreading one's investments between different asset classes that often react differently to the same event provides safeguards against adverse market cycles and minimizes risk of loss to your overall portfolio. Indeed, while correlation between stocks and bonds has risen in the past couple of years, as they tend to do during periods of market stress (when investors need it most), the asset classes have not been 100% correlated, even in 2022. Overall, the merits of U.S. investment grade bonds, including historically lower volatility, continue to make the asset class an attractive option to combine with equities, providing some ballast and risk reduction for a portfolio.¹

Diversifying Amid High Inflation and High Interest Rates

Diversified portfolios have historically held up better during periods of rising interest rates and/or above-average inflation. In fact, since 1926, well-diversified portfolios that have included a mix of stocks, bonds and short-term investments have posted positive returns in the three, five and 10 years after a period of high inflation.²

Similarly, investors in well-diversified portfolios should know that higher interest rates now may actually help boost future total returns, with bonds possibly serving as shock absorbers for well-diversified portfolios. For example, the late 1940s to 1980 was a period of rising interest rates. During those years, bonds effectively acted as diversifiers in years when stocks were down. For the past 40 years or so, interest rates generally fell, and the bond market was strong overall. But the positive side of the scenario in 2022, when interest rates rose again, is that bond yields at the start of the new year 2023 are significantly higher than they were one year prior, and it is worth noting that for more than 40 years now, more of the U.S. bond market's total return has come from yield rather than price changes.²

Diversification Remains a Valuable Strategy

In the first nine months of 2022, a portfolio comprised of approximately 60% stocks and 40% bonds produced a total return of -19.1%.³ While certainly a disappointing result, it was still better than a non-diversified portfolio of any of six other asset classes, including high yield bonds, U.S. large-cap stocks, U.S. small-cap stocks, international equities or real estate equities—and so remained a valuable strategy. Similarly, that same balanced portfolio proved effective when looking at the longer-term period of the Great Financial Crisis of 2008 through 2021, even as investors grew accustomed to positive absolute returns overall during these more recent years.

It is important to keep in mind that diversification does not maximize your return. In 2022, having a concentrated portfolio of commodities would have provided the highest return. But having solely held commodities from 2007 through 2021, for instance, would have been your worst possible strategy. What diversification may help do is build an all-weather portfolio that can be resilient in storms and sunny days alike.

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The bottom line is that yes, diversification still matters. It is an essential, time-tested, solid strategy for navigating turbulence and reducing risk over the long term, bear market, volatile market or not. A market observer once used a great analogy that holds true today: Diversification is like a seat belt.⁴ It won't prevent negative

things from happening, as there will always be some inherent risk to investing that can not be diversified away. But more times than not, it will help. It's a defensive way to help protect you from other more likely scenarios that may well occur without it.

Value Line Asset Allocation Fund Provides Diversification

The Value Line Asset Allocation Fund seeks to achieve its investment objective of a high total investment return (current income and capital appreciation) consistent with reasonable risk by following an asset allocation strategy based upon Value Line Inc.'s proprietary stock market model and other factors that enables the Adviser to periodically shift the assets of the Fund among common stocks, debt securities with maturities of more than one year that are principally rated investment grade, and money market instruments. There are no limits on the percentage of the Fund's assets that can be invested in common stocks, debt or money market securities.

Unlike some balanced funds that adhere to a static allocation of 60% equities and 40% fixed income, the Value Line Asset Allocation Fund features a flexible allocation strategy. We dynamically adjust our allocation among equities, bonds and cash based on relative opportunity. Further, the growth orientation of our equity investment approach differentiates us from our peers. Among the funds in the Morningstar 50-70% Equity Allocation category, most employ a primary value or blend style in their equity portfolios. In fact, less than 20% of funds in our Morningstar category have a growth-orientation in their equity portfolios. In addition, we believe owning mid-sized companies and those on the lower end of the large-cap spectrum provides greater potential for future growth.

Overall  Rating™



in the allocation 50% to 70% equity category among 694 funds as of October 31, 2022
based on risk-adjusted returns

Morningstar, Inc. is an investment research and investment management firm headquartered in Chicago, Illinois, United States. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. For Value Line Asset Allocation Fund, Inc.: Three-star rating for 3-year (694 funds) period ended October 31, 2022; five-star rating for 5-year (647 funds), 10-year (483 funds) and overall (694 funds) periods ended October 31, 2022. All in the allocation 50% to 70% equity category.

Check out our News & Commentary at vlfunds.com for the latest on the Value Line Funds.

For more mutual fund information, call today: 800.243.2729 or visit our website at www.vlfunds.com

¹Morningstar, "What's Next for the Relationship Between Stocks and Bonds," October 17, 2022. ²Fidelity, "Does diversification still matter?," September 6, 2022. ³"Does Diversification Still Work? The Short Answer is Yes," Lynn Snyder, CFA, October 6, 2022. ⁴"Does Diversification Still Matter?," Lazy Man and Money, February 2009.

Diversification does not ensure a profit or guarantee against a loss. Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund's prospectus, which can be obtained from your investment representative or by calling 800.243.2729. Please read it carefully before you invest or send money.

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