

The case for diversification

It is nearly impossible to predict what class will generate the highest returns in any given year. Investors benefit from diversification and reduce their risk by allocating to a variety of asset classes. A strong financial plan will incorporate investments into different asset classes that react differently to ensure investors reduce their overall risk.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10 Yr. Avg	10 Yr. Vol
Canadian Equity Large Cap	17.8%	8.9%	15.3%	34.4%	27.9%	31.2%	41.8%	18.5%	31.1%	62.4%	35.1%	9.7%	25.8%	48.1%	26.3%	21.6%	38.5%	28.7%	7.7%	24.8%	17.9%	27.6%	19.1%	19.4%
Canadian Equity Small Cap	10.2%	8.1%	8.7%	28.1%	16.8%	24.1%	32.1%	9.8%	6.4%	57.5%	20.2%	8.3%	16.0%	41.3%	23.9%	20.0%	21.1%	17.4%	4.2%	22.9%	16.6%	26.1%	15.7%	15.4%
US Equity Large Cap	7.4%	7.9%	1.8%	27.8%	14.5%	12.5%	26.4%	3.7%	-17.2%	52.0%	17.6%	4.6%	15.6%	31.6%	14.3%	19.5%	17.5%	13.8%	3.8%	19.2%	16.3%	25.1%	12.0%	13.1%
US Equity Small Cap	6.8%	4.5%	-1.9%	26.7%	11.9%	11.2%	17.9%	2.2%	-18.3%	35.1%	15.2%	4.4%	15.3%	17.2%	12.0%	16.1%	17.1%	9.1%	1.4%	16.8%	12.9%	20.3%	10.9%	12.7%
International Equity	4.7%	4.2%	-3.5%	20.5%	10.9%	10.6%	17.3%	0.9%	-21.2%	17.4%	14.1%	-0.4%	13.8%	13.0%	10.6%	14.6%	8.3%	8.5%	-1.3%	16.5%	8.7%	13.8%	9.9%	11.4%
Emerging Markets Equity	1.6%	3.8%	-7.0%	15.1%	9.7%	9.7%	15.4%	-2.3%	-26.4%	17.1%	13.0%	-1.8%	13.4%	11.4%	9.7%	8.2%	8.1%	7.5%	-2.3%	15.9%	8.7%	12.7%	9.1%	11.2%
Global Real Estate	0.4%	2.2%	-8.0%	13.8%	9.3%	6.5%	15.3%	-5.3%	-28.8%	12.5%	10.2%	-3.5%	10.3%	7.6%	8.8%	3.5%	7.7%	7.1%	-3.0%	15.8%	7.3%	10.8%	8.2%	10.8%
Canadian Fixed Income	-5.1%	-2.7%	-12.4%	12.6%	7.1%	2.7%	11.8%	-7.0%	-33.0%	8.0%	9.1%	-8.7%	7.2%	7.4%	7.0%	2.4%	1.7%	4.1%	-5.6%	14.4%	6.4%	5.4%	6.7%	7.2%
Global Fixed Income	-5.9%	-6.4%	-16.5%	6.7%	6.5%	2.3%	11.6%	-10.5%	-34.6%	7.4%	6.7%	-9.5%	3.6%	4.3%	4.1%	-4.6%	1.4%	2.8%	-6.5%	12.9%	6.2%	-2.5%	5.0%	7.0%
High-Yield Fixed Income	-11.0%	-12.6%	-21.3%	5.3%	2.8%	1.9%	6.2%	-16.5%	-41.4%	5.4%	2.6%	-16.1%	2.0%	3.9%	2.5%	-8.3%	-1.4%	2.5%	-8.9%	6.9%	5.6%	-3.1%	4.0%	6.5%
Balanced Portfolio	-28.2%	-16.3%	-22.9%	-8.0%	1.3%	-6.9%	4.1%	-21.1%	-45.5%	-9.2%	0.0%	-16.4%	-2.2%	-1.2%	-2.3%	-13.3%	-2.0%	0.3%	-18.2%	1.4%	-9.8%	-5.5%	3.3%	4.0%

Source: Morningstar Research Inc. As of December 31, 2021. Balanced Portfolio is based on 18.5% Canadian Equity Large Cap (S&P/TSX Composite TR), 2.5% Canadian Equity Small Cap (S&P/TSX Small Cap TR), 17.9% U.S. Large Cap (S&P 500 TR CAD), 3.1% U.S. Equity Small Cap (Russell 2000 TR CAD), 2% Emerging Markets (MSCI EM GR CAD), 16% International Equity (MSCI EAFE GR CAD), 8% High-Yield Fixed Income (ICE BofAML U.S. High Yield TR USD), 18% Canadian Fixed Income (FTSE Canada Universe Bond), 5% Global Real Estate (FTSE EPRA/NAREIT Developed TR), and 9% Global Fixed Income (BBgBarc Global Aggregate TR CAD).

Investment style diversification

Similar to asset classes, it is hard to know when a certain investment style will outperform. Every portfolio manager has a style and its important for investors plans to diversify across multiple investment styles and avoid single concentrated allocations.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
MSCI World Momentum	41.4%	17.7%	4.2%	16.1%	29.7%	8.4%	4.1%	12.3%	32.1%	-2.8%	36.1%	33.8%	25.7%
MSCI World Value	33.3%	16.1%	3.9%	16.1%	27.1%	6.5%	3.7%	9.3%	28.0%	-5.5%	33.7%	28.3%	21.9%
MSCI World High Dividend	32.6%	15.8%	3.8%	15.8%	26.7%	6.1%	3.1%	8.8%	26.0%	-6.7%	27.7%	22.2%	21.8%
MSCI World Quality	32.5%	14.5%	-3.4%	15.5%	26.7%	6.1%	-0.6%	8.0%	23.3%	-7.6%	27.7%	15.9%	21.2%
MSCI World Growth	31.9%	11.8%	-5.5%	14.1%	26.6%	4.9%	-0.9%	7.5%	22.4%	-8.7%	23.9%	9.6%	15.8%
MSCI World	30.0%	10.7%	-5.5%	13.6%	26.0%	3.7%	-1.5%	4.6%	21.9%	-9.4%	23.8%	5.5%	14.9%
MSCI World Risk Weighted	26.7%	9.0%	-5.6%	13.0%	23.3%	2.9%	-3.2%	4.2%	18.1%	-10.8%	23.2%	0.0%	14.9%
MSCI World Equal Weighted	14.2%	6.3%	-9.7%	12.2%	21.9%	2.5%	-4.8%	2.8%	17.1%	-12.2%	21.7%	-1.2%	14.6%
Difference between highest and lowest	27.1%	11.4%	14.0%	3.9%	7.7%	6.0%	8.9%	9.5%	15.0%	9.5%	14.3%	35.0%	11.0%

Source: Bloomberg Finance L.P. As of December 31, 2021.

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