

# What a balanced portfolio really means

People value balance in all areas of their life – even their investment portfolios. In a nutshell, a balanced investment strategy is a way of building your portfolio to manage risk and maximize returns based on the principles of asset allocation. Like all investments, having a balanced portfolio requires first understanding your individual situation, from your investment objectives and time horizon to your risk tolerance. Once these factors are accounted for, the next step involves looking at asset allocation variables, such as:

## 1. Asset mix

This refers to the combination of investments in equities, fixed income, cash and other assets. Equities can be further broken down to include specific sectors, like financials, information technology or healthcare. Fixed income can include government and corporate bonds. Generally, a balanced portfolio is a mix of between 40% and 60% in equity investments and 40% to 60% in fixed-income investments.

## 2. Geography

To achieve balance, investing across different regions can also make sense. For example, although many Canadians are drawn to investing in their own backyard, the local market represents only about 3% of the stock market globally. A balanced portfolio can help to avoid “home-country bias” by blending holdings that are more globally diversified.

## 3. Market capitalization

The size of individual companies you target can also impact how your investments behave. Big blue-chip companies are often considered less risky, typically because they’ve been in business for a long time and are relatively more stable. However, you may also want exposure to small or medium-sized companies that have the potential for higher or faster growth and, by extension, better investment performance.

## Making a case for balance

Now that you know some of the elements that can go into constructing balanced portfolios, you may be wondering why they’re often a preferred choice for investors. A balanced portfolio can be ideal for helping you reach your goals by providing a variety of benefits.

## Know the rules

Benefits aside, you can set yourself up for a better experience as a plan member by being well-versed in the specifics of your plan, which could include:

- **Diversification**

A properly diversified portfolio reflects the adage of not putting all of your eggs in one basket. Being overly concentrated in any one area means taking a big bet on a sliver of the market. If the investment goes south, you could lose money. Most people can’t stomach that level of risk, nor do they need to. Spreading out your money can help you sleep better at night while providing sufficient investment returns to meet your goals.

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- **Lower volatility**

Investors are often their own worst enemy, buying high and selling low. That's because they tend to throw in the towel when their resolve is tested – often at the wrong time. They're unable to ride the market rollercoaster long enough to make significant progress in growing their investment. In general, the correlation between stocks and bonds has historically been low or even negative, meaning they tend to move in opposite directions. Smoothing returns between equities (which typically do well in bull markets) and fixed income (which tend to perform better in bear markets), can help you stay invested. It can also make for a less bumpy experience.

- **Attractive risk-adjusted returns**

A balanced portfolio can allow you to take advantage of market upswings while protecting you against downturns, creating an overall more level investment experience. The outcome is referred to as a "risk-adjusted return". Risk adjusted return is defined by the return your investment has made in relation to the amount of risk the investment has exhibited over a period of time. Compared to an investment that tracks an equity-based market index like the S&P 500, a 60/40 balanced portfolio has the potential to offer a higher risk-adjusted return. In other words, it can still provide solid returns close to the level of an aggressive, equities-only portfolio, but with relatively less risk per unit of return. That's like having your cake and eating it too!

## **Peace of mind**

Although no investment is 100% safe, a balanced approach can be effective for dealing with a volatile and unpredictable market and offer the best opportunity for capturing its upside without taking undue risk. To learn more about implementing a balanced portfolio that complements your overall wealth management plan, contact one of our Advisors today.



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