Investor insights | June 2020

Why balanced?
For returns and risk management

It's close to impossible to predict what assets will perform the best (or worst) over time in any market. As a result, investors spread their savings across many asset classes and many countries or regions, according to their ability or willingness to take risk. This spreading out of assets is called "diversification".

The colourful table below shows the returns of different assets over time. The chart puts the highest return at the top and the lowest return at the bottom, and different assets are colour-coded so it is easy to track where different assets rank in terms of top performers.

With only one exception, the chart shows that the same assets rarely perform in the same part of the chart year-over-year. The top performing assets one year are the worst in some years, and vice versa. By spreading your money across different asset classes and investing for the long term, investors experience the returns generated by the highest performing asset classes, without needing to guess which ones they might be.

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
Global Govt Bonds 9.6%	Global HY Bonds 58.2%	Canadian Equity 17.6%	Canadian Govt Bonds 10.2%	Global HY Bonds 19.5%	US Equity 41.3%	US Equity 23.9%	US Equity 21.6%	Canadian Equity 21.1%	Asian Equity 23.0%	US Equity 4.2%	Global HY Bonds 13.4%	Global HY Bonds 7.9%
Canadian Govt Bonds 9.0%	Floating Rate Loans 50.2%	Global HY Bonds 15.1%	Canadian Corp Bonds 8.2%	European Equity 16.5%	European Equity 33.6%	Canadian Equity 10.6%	Asian Equity 17.6%	Global HY Bonds 15.7%	European Equity 17.3%	Global Govt Bonds 1.9%	Canadian Govt Bonds 6.4%	Canadian Govt Bonds 6.7%
Global Bonds 5.7%	Canadian Equity 35.1%	Asian Equity 10.9%	Global Govt Bonds 6.4%	Asian Equity 14.2%	Asian Equity 19.5%	Global Govt Bonds 9.4%	European Equity 16.5%	Floating Rate Loans 9.9%	US Equity 13.8%	Canadian Govt Bonds 1.5%	Global Govt Bonds 6.9%	Global Govt Bonds 4.9%
Canadian Corp Bonds 0.2%	Global Neutral Balanced 17.7%	Floating Rate Loans 10.1%	Global Bonds 6.3%	US Equity 13.4%	Canadian Equity 13.0%	Canadian Govt Bonds 9.3%	Global Neutral Balanced 4.4%	US Equity 8.1%	Canadian Equity 9.1%	Canadian Corp Bonds 1.1%	Global Bonds 7.4%	Global Bonds 3.0%
Canadian Neutral Balanced -16.0%	Asian Equity 16.8%	US Equity 9.1%	US Equity 4.6%	Floating Rate Loans 10.4%	Global Neutral Balanced 11.7%	Asian Equity 9.0%	Canadian Govt Bonds 3.8%	Canadian Neutral Balanced 7.6%	Global HY Bonds 7.5%	Global Bonds 1.1%	Canadian Corp Bonds 8.1%	Canadian Corp Bonds 2.2%
Global Neutral Balanced -18.8%	Canadian Corp Bonds 16.3%	Canadian Neutral Balanced 8.8%	Global HY Bonds 3.3%	Global Neutral Balanced 7.4%	Canadian Neutral Balanced 10.5%	Canadian Neutral Balanced 8.8%	Canadian Corp Bonds 2.7%	Global Neutral Balanced 4.3%	Global Neutral Balanced 6.7%	Floating Rate Loans -0.5%	US Equity 24.8%	US Equity -2.8%
US Equity -21.2%	Canadian Neutral Balanced 15.6%	Global Neutral Balanced 8.6%	Floating Rate Loans 2.1%	Canadian Equity 7.2%	Global HY Bonds 7.9%	Global Bonds 8.6%	Global Govt Bonds 1.9%	Global Bonds 3.7%	Canadian Neutral Balanced 5.6%	Global HY Bonds -2.8%	Global Neutral Balanced 12.9%	Global Neutral Balanced -4.9%
Asian Equity -27.3%	European Equity 15.3%	Canadian Corp Bonds 7.3%	Global Neutral Balanced -0.6%	Global Bonds 6.5%	Floating Rate Loans 6.2%	Global Neutral Balanced 8.5%	Global Bonds 1.6%	Canadian Corp Bonds 3.7%	Floating Rate Loans 3.6%	Global Neutral Balanced -3.7%	Canadian Neutral Balanced 12.8%	Canadian Neutral Balanced -5.4%
Global HY Bonds -29.2%	US Equity 7.4%	Canadian Govt Bonds 6.5%	Canadian Neutral Balanced -0.9%	Canadian Corp Bonds 6.2%	Global Govt Bonds 1.0%	Canadian Corp Bonds 7.6%	Canadian Neutral Balanced -0.2%	Global Govt Bonds 3.6%	Canadian Corp Bonds 3.4%	Canadian Neutral Balanced -4.4%	Asian Equity 13.3%	Asian Equity -6.5%
Floating Rate Loans -30.7%	Global Bonds 5.0%	Global Bonds 5.0%	Canadian Equity -8.7%	Canadian Neutral Balanced 6.0%	Canadian Corp Bonds 0.8%	Global HY Bonds 3.3%	Floating Rate Loans -0.5%	Asian Equity 1.3%	Global Bonds 2.6%	Asian Equity -5.7%	Floating Rate Loans 7.7%	Floating Rate Loans -10.1%
European Equity -33.0%	Canadian Govt Bonds 1.6%	Global Govt Bonds 3.8%	European Equity -8.9%	Global Govt Bonds 5.4%	Global Bonds 0.6%	Floating Rate Loans 2.5%	Global HY Bonds -2.0%	Canadian Govt Bonds 0.9%	Canadian Govt Bonds 2.2%	European Equity -7.2%	Canadian Equity 22.9%	Canadian Equity -12.4%
Canadian Equity -33.0%	Global Govt Bonds 1.2%	European Equity -1.5%	Asian Equity -13.0%	Canadian Govt Bonds 2.6%	Canadian Govt Bonds -2.0%	European Equity 2.3%	Canadian Equity -8.3%	European Equity -3.8%	Global Govt Bonds 1.8%	Canadian Equity -8.9%	European Equity 17.5%	European Equity -14.1%

Source: Morningstar Direct, as of April 30, 2020.

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Investments

Seek broad exposures for consistent performance

Diversifying your portfolio evenly across asset classes may improve returns and lower risk in your portfolio relative to trying to pick winners. A slightly better choice might be to purchase a balanced fund that shows consistent performance near the middle of the chart in every time period. The main reason for this consistency is that balanced funds invest across all of the different asset classes – equities, bonds and cash – and so gains exposure to high-performing assets when they do well.

Balanced funds have two advantages over simple diversification:

1) They give the most money to the least risky assets.

2) They allocated money to the best market opportunities relative to the amount of risk those assets carry.

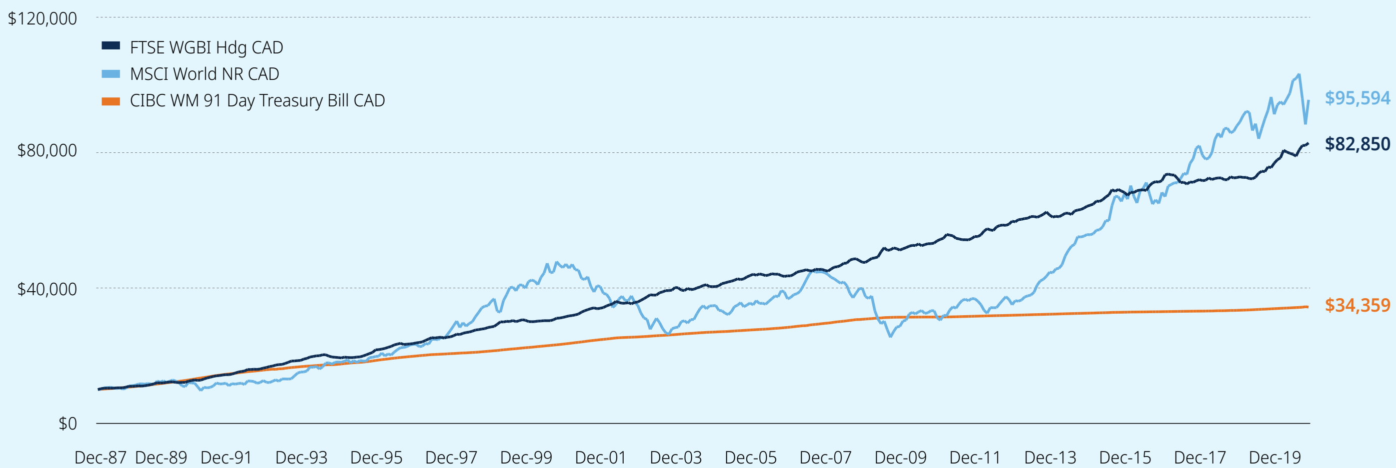
Balanced funds can act as the core of a portfolio; whether they be a professionally managed solution for a do-it-yourself investor, or an anchor on which an advisor may choose to build around. Either way, these funds can help grow the hard-earned capital of investors.

Balancing risk and return is tricky

Over time, the exposure to risk from global equity markets has produced larger returns for investors. However, it has not been without major drawdowns of returns, sometimes losing as much as 50%. Conversely, current low interest rates mean that cash returns are less than 1%, which is lower than the rate of inflation. Prices of groceries and other consumer goods are rising by far more than the interest we are getting on deposits.

To ensure that investors can achieve their financial goals, such as retirement savings, they require greater investment into risky equities, income-paying bonds and more stable cash assets. The balance of these assets in a portfolio, of course, depends on the investor's risk appetite.

Growth of $10k - FTSE WGBI Hdg vs MSCI World vs CIBC WM 91 Day T-bill



Source: Morningstar Direct, as at April 30, 2020.

Balanced funds will invest in equities, bonds and cash in a way that reflects a consistent risk profile over time. This helps to maintain a consistent client experience. Investors should consider purchasing balanced funds to allow professionals to manage the complicated aspects of balancing risk, so that they may relax and spend time doing what they enjoy.

Talk to your financial advisor about how Mackenzie Balanced Funds can help you meet your financial goals.