INVESTMENT STRATEGIES

“HOW TO INCREASE YOUR PROBABILITY”

TO

“ACHIEVE YOUR INVESTMENT GOALS”
COMMON INVESTMENT STRATEGY PITFALLS

Major reasons individuals fail to achieve investment success:

**Knowledge**

- lack of knowledge - not understanding the game you’re playing or the appropriate strategies and tactics that should be used
- not seeking financial guidance if one has a lack of knowledge, time or suitable investment temperament

**Diversification**

- poor asset class diversification
- poor geographic diversification
- no rebalancing of asset mix over time back to targeted asset mix
- not utilizing managed money if one is purchasing individual entities but have insufficient capital to be diversified

**Investor Behavior**

- trying to time the market
- trying to switch to the hot performing investments with the best rates of returns over the past six months to a year
- no monitoring of investment performance over time
DIVERSIFICATION

The most important strategy to reduce risk is through diversification of your assets. We’ve all heard the expression “don’t put all your eggs in one basket.” Diversification is about reducing risk, not increasing your rate of return. Your objective is to ensure that no single event could significantly reduce the size of your assets – the avoidance of the big hit.

You cannot invest capital without it being exposed to one or more types of risk. Thus, avoidance of risk is impossible – management of risk is the priority. Five major risks of investing are:

- **Capital Risk** - the loss of a portion of your investment capital on equity investments due to declining prices
- **Capital Default Risk** (similar to capital risk) - the nonpayment by a debtor of principal on a debt instrument such as a GIC or bond
- **Currency Risk** - your investment is in a country whose currency is declining in value
- **Interest Rate Risk** - the risk of locking into a long term debt instrument and interest rates subsequently rise or the alternative, locking into a short term debt instrument and interest rates subsequently decline
- **Inflation Risk** - the loss of purchasing power
THE IMPORTANCE OF DIVERSIFICATION

Let’s assume that Bill and Karen each received a windfall of $100,000. They have discussed various investment options and have agreed to disagree. Bill decides he will invest his capital in a fixed income investment for twenty years earning an 8% interest rate. Karen has decided to diversify and invests her capital in 5 different investments at $20,000 a piece. Twenty years later, Bill and Karen are discussing the results of their investment program. They each have their own perspectives on what has occurred.

<table>
<thead>
<tr>
<th>Who had the best investment strategy 20 years ago?</th>
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<tbody>
<tr>
<td>BILL</td>
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<tr>
<td>$100,000 @ 8%</td>
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<tr>
<td>$20,000 @ 15%</td>
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<tr>
<td>$20,000 @ 10%</td>
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<tr>
<td>$20,000 @ 5%</td>
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<tr>
<td>$20,000 @ 0%</td>
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<td>$20,000 @ a complete loss</td>
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ASSET ALLOCATION

As you accumulate assets for retirement, your objective is to receive an adequate return on these assets at a comfortable risk level for you. The greatest factor in accomplishing this objective is to ensure adequate diversification. A portfolio consisting entirely or mostly of one type of asset is not going to perform as effectively or efficiently as a portfolio with a mix of assets.

You can diversify in many ways. A laddering of descending priority for diversification is as follows:

• first, a mix of the asset classes of cash, fixed income and equity;

• second, geographic diversification providing a mix of different performing economies and political situations as well as providing currency diversification;

• third, within a specific asset type, you could utilize different categories (ie using GIC’s, government bonds and corporate bonds for Canadian fixed income or using large capitalized equity and small capitalized equity for Canadian equity);

• fourth, if you are utilizing mutual funds, use a variety of managers with different investment styles.

The following page demonstrates a simplistic model of asset allocation by age using three different types of assets:

• a money market mutual fund representing cash

• a bond mutual fund representing fixed income

• a growth mutual fund representing equity