BALANCED PORTFOLIOs

Question: I don't understand all this reference to being a conservative versus an aggressive investor. Can you provide some clarification?

Answer: In any portfolio (the collective term given to your total asset base); asset mix or allocation is the most important determinant of your portfolio's rate of return. Therefore, asset allocation is the process of selecting the optimum mix of investment alternatives that best suits your goals and risk tolerances.

Investors are typically labeled "Conservative, Balanced or Aggressive" with varying levels of differences. Staying within the confines of your label may allow you to feel comfortable about your investments' performance. Don't go outside your risk tolerance - even if the grass looks greener.

Typically, "Conservative Investors" are more concerned with protection of capital. Most people having a short-term investment horizon between five and eight years should stick to a combination of GIC's, mortgages (and mortgage funds); bond funds; real estate specialty funds and cash.

Some Conservative investors may put a small portion (less than 20-25%) of their asset base into equities or diversified funds. If you look historically; Conservative investors have typically made less overall returns than the Balanced investor but they also have not had to experienced the equity market volatility.

At the other extreme, we have "Aggressive Investors". As an aggressive investor, you would be defined as committed to making your money grow vigorously. The aggressive investor is a risk taker and has a long-term, between 10 and 15 years, approach to the market performance.

The typical aggressive portfolio would consist predominantly of equities (Canada and beyond). It is always a good idea to have some (less than 20%) of fixed income (bonds / mortgages) and cash in this portfolio to minimize significant losses in depressed markets.

Some overly aggressive individuals may be very brave and put some of their equity into the specialty markets such as precious metals. Returns may swing 40-50% or more in specialty markets in any given year. I would not suggest placing more than 5-10% of your portfolio in this specialty sector.

In between, we have the "Balanced Investor". This individual is looking for security of the capital with some growth expectations. Typical balanced portfolios contain 40-50% of fixed income (bonds & mortgages) and 50-60% of various equities including some foreign content (10-20%).

A Balanced investor is hoping for 4-6% annual growth with the expectation of some market volatility.

In summary, we have a number of tools to help you determine what asset allocation best suits your tolerance to risk and investment horizon.

Need further clarification or help, give us a call at 613-475-5109,
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