FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

The traditional 60/40 portfolio has served retail investors well for the past couple of decades. Ever-declining interest rates juiced bond returns, while sending equity prices higher. But we've reached the point where interest rates have no-where to go (at least down anyway), and investors are justifiably concerned that performance won't be repeated going forward. The 60/40 portfolio's purpose -a balance of capital growth and capital preservation- hasn't fallen out of fashion, but how one *achieves* these competing objectives will require more investment creativity.

"I've been saving this baby for the stock market."

The simplest fix for lower returns from bonds is to move some of it into equities. A modest re-positioning of a portfolio allows investors to stay true to their investment parameters, while positioning their portfolio for a return expectation that meets investors financial planning objectives. The problem of course, is that too many investors know this, and collectively have sent stock prices to record levels. Everything is expensive right now, as all-but-free money has inflated asset prices. Another way is to seek returns in riskier forms of credit including non-investment grade bonds (aka *junk* bonds), or bonds issued by emerging market governments. But this too entails risk and by the end of 2020, corporate bonds looked only modestly less expensive than they did prior to the recession. Were it not for the Federal Reserve willing to purchase corporate bonds, there could have been a liquidity issue that would have a significant negative impact on bond prices.

So what is an investor to do? For one, consider core equity funds where downside protection is an objective of the fund manager. In our model portfolios, Mackenzie Investments' **Ivy Foreign Equity** fund serves this function. While past performance is not a guarantee of future results, this global equity funds has had just 4 losing years in the past 28 -a number half that of the global Markets over this same time period. The lead manager Paul Musson I know quiet well, and understand his investment thesis of buying often overlooked companies with strong balance sheets and good management. When the Financial Crisis hit in 2008, equity Markets fell almost 50%, while the Ivy Foreign Equity fund fell only 5.7%. Impressive. Another strategy is to hold funds that are structured to deliver specific outcomes. Guardian Capital's **Directed Equity** portfolios are comprised of high quality global equities, protected by Call and Put options that act like "bumpers", protecting investors from the full downside of the Market. When Markets sell off, the Put options ensure a floor under the stock, limiting investor losses. This is one way that investors can increase their exposure to equities, while delivering on a desired outcome of safety. Click <here> for more information on Guardian's proprietary approach.

Our model portfolios utilize both investment strategies, in addition to positioning investors' money in funds that we believe offer above-average return potential. I have been speaking with many of you about Mackenzie's **Global Environmental Equity** fund, which invests in what we believe is the next Big Thing. The electrification of the global economy powered by sustainable energy (wind, solar, geo-thermal and bio-mass) gives investors a generational opportunity to earn returns from (what will likely be) the largest infrastructure project planet Earth has ever seen. Of course our core holdings with **Dimensional** and **Edgepoint** also play an important role in portfolio diversification, by bringing different management styles which deliver performance using fundamentally different approaches to wealth management.

To summarize, moving away from the 60/40 portfolio requires frank conversations with you, to make sure you understand the risks and rewards involved. We still believe there is a role for bonds to play of course, but building a portfolio of uncorrelated assets is another way to build downside protection into the asset mix. I look forward to continuing discussions with you in this regard.

Be safe, be well!

Martin
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