ALIGNED capital partners inc.

LGK INVESTMENTS

GARY KOSS

LGK INVESTMENTS OF ALIGNED CAPITAL PARTNERS INC.

Suite 304, 9945 50th St NW
Edmonton, AB T6A 0L4

Office: (780) 426-2400
Fax: (780) 423-0311

gkoss@alignedcp.com

www.LGKWealth.ca

# What are the Contributors to Client Performance? Your Asset Allocation

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Your Asset Allocation

In the first of our series on what contributes to investor performance we're going to discuss asset allocation. As an investor, you've probably heard the term asset allocation before, but what does it mean and why is it important?

Investopedia defines asset allocation as follows: It is the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.

In really simple terms, it's really just how much weight you give to the following investments:

| Asset Type | Risk | Performance/Return Potential |
|---|---|---|
| Cash, High Interest Savings Accounts, Cashable GICs, Money Market Funds, etc. | Risk free to low | Low |
| Bonds, GICs over 1 Year, Bond Funds and ETFs | Low to moderate | Low to moderate |
| Equities (stocks), equity mutual funds and ETFs | Moderate to high | Moderate to high |

It makes sense then, that an individual that makes a higher allocation to equities will, in the long run, achieve a higher return or better performance than the person who invests with a higher allocation to cash-based investments.

There have been many studies done on this topic, including the famous "Brinson" study (BHB) conducted in 1986. The study determined that when two portfolios with identical asset allocations (weightings to cash, bonds, and stocks) but different holdings were compared to one another, the asset allocation "explained 93.6% of the variation in portfolio returns."[1] The conclusion of the study indicated that it is the asset allocation, or in other words, "investment policy", that drives the majority of your portfolio's performance as opposed to the "investment strategy" (market timing and security selection).

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Over the years, some have challenged the study and its findings and suggested there are other factors that contribute to performance beyond asset allocation. At the same time, the main conclusion survives, and that is that asset allocation is a crucial element in determining the long-term performance of your investment portfolio.

So, what is the right asset allocation for you? This is where working with a true professional can make all the difference. At LGK Investments of Aligned Capital Partners Inc, we're not just here to tick boxes. Creating the right asset allocation begins first by building a deep understanding of yourself and the people who you care about. We learn about your investment experience, financial goals and future income requirements. From there we work with you to establish an Investment Policy by establishing the portfolio risk you feel comfortable with and then balancing it with the financial goals you wish to achieve.

Over the coming weeks, we'll continue to discuss other important factors that contribute to your long- term investment performance.

[1] Determinants of Portfolio Performance by Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, Financial Analysts Journal, Vol 42, No. 4 (July-August, 1986), pp 39-44.

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