

# Investor Insight

Shewchuk Watson Strategic Investments

## Asset Allocation in Today's Changing World

We often stress the importance of reviewing how assets are allocated within your portfolio. Your current allocation should properly reflect your financial objectives and risk tolerance, and this can change based on your personal circumstances. But asset allocation can also be impacted by the current market conditions, which may necessitate changes.

Today, the investing world is more connected and diverse than it has ever been. At the same time, it is experiencing new challenges. The outlook for growth of many advanced economies and certain developing countries continues to be much slower.

To combat high debt levels and unemployment rates, many central banks have implemented unconventional monetary policy by keeping interest rates low to stimulate their economies. Although the global economic situation continues to improve, slower economic growth and a lower interest rate environment appear to be the “new normal”, at least for the foreseeable future.

In this changing environment, here are some things to consider when it comes to asset allocation:

**Cash has a cost** – While having some cash on hand to take advantage of new investment opportunities is wise, holding too much doesn't make sense in these days of low interest rates. The lower returns achieved via 'high interest' savings accounts or Guaranteed Investment Certificates (GICs) may be offset by just moderate inflation levels and taxes, so sitting on too much cash may actually yield a negative real rate of return.

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“ Your current allocation should properly reflect your financial objectives and risk tolerance”

**Risk exists with all assets; time may change these risks** — A seemingly riskless asset class today may become a risky prospect tomorrow. As an example, gold became a flight-to-safety for those who had concerns with traditional currencies due to the 2007-2008 global financial crisis. As a result, prices were driven up significantly in the years following the financial crisis. But since 2013, the price of gold has been falling back to levels that were seen during the times of the financial crisis.

**Diversification is evolving** — Diversification still remains an important principle in mitigating the impact of market fluctuations on portfolio return. But effective diversification has taken on new meaning given globally integrated economies and closer connections between capital markets. The 2008-2009 financial crisis showed that most major economies often rise and fall together. However, greater access to new markets and new products has also allowed for portfolio diversification to evolve.

**Buy and hold doesn't mean buy and forget** — The need for rebalancing to adjust to today's challenges remains important. Entire asset classes have changed. There was once a time when government bonds were a sufficient way of generating moderate income with low risk, but today this isn't the case.

Your portfolio should be dynamic to account for these changes. This doesn't mean that you should move towards a day-trading model – quite the contrary. Exercising patience in the markets is important, but making thoughtful adjustments as the investing environment changes may be equally important.