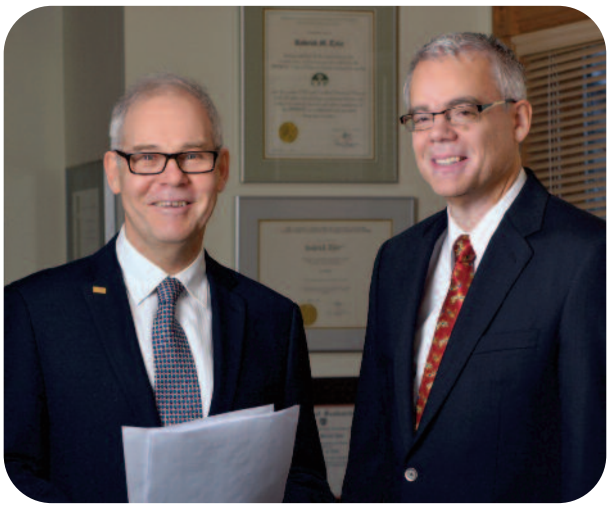
Sound Advice



The Many Reasons Why We Diversify Your Investments

By Rod Tyler, CFP, R. F. P. , CLU

With the close of one year and as a new year begins, The Tyler Group continues to review our client investment accounts. On balance, Al and I are quite satisfied with the results, and we hope you are as well. However, as we continue to evaluate how these results came about, there is one obvious answer that I will explain. In addition, there are several other critical actions that have not only taken place this year, but throughout each of our individual financial advising careers. Let's begin.

The "obvious answer" to our clients on how they should invest has been the same. Seek out a professional financial advisor – not an amateur– and avoid the adventures of "doing it yourself". Professional money management is the basis of all our client portfolios. Al and I concentrate on the financial plan, working closely with clients to help them meet their financial objectives. Neither of us have ever believed that we could be as skillful at choosing investment grade securities as the best professional managers who we have met and chosen to do that job. They select the securities because that's what they are best at, and we assist our clients with all the other details. More on that later, but before continuing, you may want to read a previous article entitled: *The Seven Reasons Why Rich People Like Mutual Funds*: http://thetylergroup.ca/wp-content/uploads/2014/07/SoundAdviceIssueAutumn2014.pdf

There is, however a second and equally critical reason the returns you see in your account have been possible. We diversified your investments. Let me explain.

Both Al and I have long recognized that we would never be smart enough to know when to recommend the next hottest investment, whether it was gold, oil stocks, real estate or some other popular and trending "get rich quick" scheme. Let's face it – we're just not that clever. But then we know that nobody else is either, despite some of the attempts by "financial gurus" to convince you that they have a magic answer. Since we know that neither of us, nor any other self-appointed experts are capable of this feat, we've done the next best thing – we have diversified your investments.

Before I discuss the concept of diversification, I want to discuss one more important form of advice that we provide to our clients. The most important thing we can help our clients accomplish is to overcome procrastination or fear. In other words, we encourage our clients to save and invest money. Once you have saved some money, we help you to add to your investments, especially when they appear to be unpopular, or when just keeping them seems difficult. Think of us as a pair of behavourial investment coaches. We help you do what you need to do, if only you could convince yourself to do it. These two activities, saving money and investing it, even when it seems uncomfortable, are most critical to your success. Our job is to help you choose your investments wisely, save your money and invest it. As you can see from your portfolio summaries, you have done well.

I will return to diversification and how it helps you. One way to explain this concept is to think back eight years ago to 2008, when the United States, together with the rest of the world, experienced a momentous credit and financial crisis. It was mostly based on all of the bad real estate loans that had originated in the U.S. You may remember the stories about the banks and the mortgage companies, Lehman Brothers and Fannie Mae and Freddie Mac, either going bankrupt or about to be taken over by the government of the United States. If you aren't familiar with this event, you may consider watching the movie, *The Big Short*. This documentary style movie does a great job of describing the incredible foolishness of the real estate and lending environment of this 2004-2008 period. Likewise, you may remember two automobile manufacturers, Chrysler and GM, being taken over or bailed out by the U.S. government. Did you feel very motivated at that time to invest your money in the United States? Probably not. But we encouraged you to do so anyway and it worked out very well. You bought and held onto your investments and you have prospered nicely, despite of all the naysayers who were expounding that the United States was doomed.

Most recently, we have encouraged our clients to invest some of their long-term investment money in other undervalued areas, such as the emerging markets.

A quick check on that advice reveals, that despite its global dominance in larger successful companies, the United States does not have a monopoly on superior stock market returns, profitable companies, dividend payments or good ideas.

These situations exist everywhere that good companies operate. They exist in countries as geographically and historically diverse as Israel or Brazil, and China or Mexico. They exist in many industries throughout the world. Therefore, we diversify investments into some of those areas as well. Of course, there is a lot more to diversification than this, but you get the idea. Owning investments in several industries throughout various parts of the world, and chosen by professional managers who are skilled at identifying bargains, is a great strategy for investment success. That's what we recommend to our clients who are investing for the long-term.

To meet our objectives, it is important to note the things that we haven't done. We have purposely chosen a limited number of investment funds and investment managers. We have concentrated on our best choices and we have avoided over-diversifying your portfolio that would ultimately dilute the investment results. Think of the old adage that describes what happens when "there are too many cooks in the kitchen". No one likes the soup! We want only the best recipes and the best ingredients and to that end, we have intentionally developed a short list of preferred funds managed by experienced managers with a demonstrated record of creating wealth for our clients.

The whole concept of diversification makes a lot of sense, and not only in the rarified world of international investing, but also to anyone who has ever been associated with farming, which includes most of our Saskatchewan clients. It is also something near and dear to Al's heart. Al grew up on a farm that involved cattle, sheep and various grains. That is definitely real farming diversification!

I will close this article by referring you to the graphic below. It shows many of the best and worse performing investments from year to year. As you can see, there are always surprises. The best way to avoid investment disappointment is to diversify. You can count on me, Al and all the team at the Tyler Group to continuously guide our clients using this fundamental principle of diversification, and to report back to you in early 2018.

FRANKLIN TEMPLETON INVESTMENTS

Why Diversify? **Because Winners Rotate.**

ANNUAL RETURNS OF KEY ASSET CLASSES RANKED IN ORDER OF PERFORMANCE FROM BEST TO WORST (CDN$)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Best	BRIC EQUITIES 33.09%	U.S. LARGE CAPS 39.24%	EUROPEAN EQUITIES 38.36%	BRIC EQUITIES 72.10%	U.S. BONDS 15.52%	U.S. BONDS 15.25%	GLOBAL BONDS 15.32%	BRIC EQUITIES 56.81%	EMERGING MARKETS EQUITIES 16.78%	BRIC EQUITIES 40.84%
	CANADIAN LARGE CAPS 31.53%	BRIC EQUITIES 37.08%	U.S. LARGE CAPS 38.01%	EMERGING MARKETS EQUITIES 57.23%	CANADIAN BONDS 10.24%	GLOBAL HIGH YIELD BONDS 12.44%	U.S. BONDS 9.12%	CANADIAN SMALL CAPS 42.74%	GLOBAL SMALL CAPS 15.17%	EMERGING MARKETS EQUITIES 31.17%
	CANADIAN SMALL CAPS 28.66%	EUROPEAN EQUITIES 29.67%	GLOBAL EQUITIES 33.94%	CANADIAN LARGE CAPS 34.21%	CANADIAN LARGE CAPS 7.99%	U.S. SMALL CAPS 8.92%	CANADIAN BONDS 8.73%	EMERGING MARKETS EQUITIES 27.83%	CANADIAN SMALL CAPS 14.12%	CANADIAN LARGE CAPS 26.29%
	U.S. LARGE CAPS 23.57%	U.S. SMALL CAPS 27.75%	FOREIGN EQUITIES 29.16%	GLOBAL SMALL CAPS 22.64%	CANADIAN SMALL CAPS 7.31%	CANADIAN BONDS 8.08%	GLOBAL HIGH YIELD BONDS 2.04%	CANADIAN LARGE CAPS 25.51%	CANADIAN LARGE CAPS 13.84%	CANADIAN SMALL CAPS 19.68%
	EUROPEAN EQUITIES 22.17%	GLOBAL EQUITIES 21.35%	GLOBAL BONDS 22.04%	CANADIAN SMALL CAPS 20.29%	GLOBAL BONDS 6.78%	GLOBAL BONDS 7.95%	CANADIAN SMALL CAPS -0.93%	GLOBAL SMALL CAPS 23.75%	EUROPEAN EQUITIES 12.55%	GLOBAL SMALL CAPS 13.01%
	U.S. SMALL CAPS 17.08%	CANADIAN LARGE CAPS 19.95%	U.S. BONDS 16.66%	FOREIGN EQUITIES 20.28%	U.S. SMALL CAPS 0.37%	EMERGING MARKETS EQUITIES 3.76%	EMERGING MARKETS EQUITIES -6.97%	U.S. SMALL CAPS 20.45%	FOREIGN EQUITIES 11.91%	FOREIGN EQUITIES 11.16%
	GLOBAL EQUITIES 14.57%	GLOBAL HIGH YIELD BONDS 17.59%	GLOBAL SMALL CAPS 9.82%	GLOBAL EQUITIES 18.44%	GLOBAL HIGH YIELD BONDS -1.90%	CANADIAN SMALL CAPS 3.44%	GLOBAL SMALL CAPS -12.37%	FOREIGN EQUITIES 13.84%	U.S. SMALL CAPS 9.71%	GLOBAL EQUITIES 7.27%
	GLOBAL HIGH YIELD BONDS 12.98%	U.S. BONDS 14.48%	CANADIAN BONDS 9.18%	U.S. SMALL CAPS 14.58%	EUROPEAN EQUITIES -4.93%	GLOBAL SMALL CAPS -0.49%	BRIC EQUITIES -13.52%	EUROPEAN EQUITIES 13.82%	BRIC EQUITIES 8.59%	EUROPEAN EQUITIES 7.18%
	CANADIAN BONDS 12.26%	CANADIAN BONDS 9.63%	GLOBAL HIGH YIELD BONDS 7.96%	U.S. LARGE CAPS 14.37%	U.S. LARGE CAPS -5.93%	U.S. LARGE CAPS -6.35%	CANADIAN LARGE CAPS -14.00%	GLOBAL EQUITIES 9.41%	CANADIAN BONDS 7.15%	CANADIAN BONDS 6.46%
	GLOBAL SMALL CAPS 8.55%	GLOBAL BONDS 8.35%	U.S. SMALL CAPS 4.60%	EUROPEAN EQUITIES 9.82%	GLOBAL SMALL CAPS -7.01%	BRIC EQUITIES -8.62%	FOREIGN EQUITIES -16.53%	CANADIAN BONDS 6.69%	GLOBAL EQUITIES 6.85%	U.S. LARGE CAPS 2.29%
	FOREIGN EQUITIES 6.89%	CANADIAN SMALL CAPS 6.97%	CANADIAN LARGE CAPS 1.37%	CANADIAN BONDS -1.14%	GLOBAL EQUITIES -9.88%	GLOBAL EQUITIES -11.28%	EUROPEAN EQUITIES -18.94%	U.S. LARGE CAPS 5.26%	GLOBAL HIGH YIELD BONDS 3.80%	U.S. SMALL CAPS 1.94%
	EMERGING MARKETS EQUITIES 6.56%	FOREIGN EQUITIES 6.56%	CANADIAN SMALL CAPS -17.90%	GLOBAL HIGH YIELD BONDS -2.41%	FOREIGN EQUITIES -10.95%	EUROPEAN EQUITIES -14.59%	GLOBAL EQUITIES -20.37%	GLOBAL HIGH YIELD BONDS 4.65%	U.S. LARGE CAPS 2.81%	U.S. BONDS -0.14%
	GLOBAL BONDS 5.43%	GLOBAL SMALL CAPS 2.98%	EMERGING MARKET EQUITIES -19.86%	U.S. BONDS -6.28%	BRIC EQUITIES -18.48%	CANADIAN LARGE CAPS -14.82%	U.S. SMALL CAPS -21.31%	GLOBAL BONDS -7.97%	GLOBAL BONDS 1.31%	GLOBAL HIGH YIELD BONDS -0.30%
Worst	U.S. BONDS 4.15%	EMERGING MARKETS EQUITIES -7.69%	BRIC EQUITIES -40.34%	GLOBAL BONDS -10.40%	EMERGING MARKETS EQUITIES -28.19%	FOREIGN EQUITIES -16.26%	U.S. LARGE CAPS -22.91%	U.S. BONDS -14.84%	U.S. BONDS -3.26%	GLOBAL BONDS -6.88%

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Best	BRIC EQUITIES 56.01%	BRIC EQUITIES 34.90%	U.S. BONDS 31.64%	CANADIAN SMALL CAPS 75.10%	CANADIAN SMALL CAPS 38.53%	U.S. BONDS 10.51%	EUROPEAN EQUITIES 17.27%	U.S. SMALL CAPS 48.14%	U.S. LARGE CAPS 23.93%	U.S. LARGE CAPS 21.59%
	EUROPEAN EQUITIES 33.84%	EMERGING MARKETS EQUITIES 18.59%	GLOBAL BONDS 31.07%	BRIC EQUITIES 64.34%	U.S. SMALL CAPS 20.24%	CANADIAN BONDS 9.67%	EMERGING MARKETS EQUITIES 16.00%	U.S. LARGE CAPS 41.27%	U.S. BONDS 15.52%	U.S. BONDS 20.59%
	EMERGING MARKETS EQUITIES 32.05%	CANADIAN LARGE CAPS 11.14%	CANADIAN BONDS 6.42%	EMERGING MARKETS EQUITIES 52.03%	GLOBAL SMALL CAPS 20.10%	GLOBAL BONDS 8.26%	GLOBAL SMALL CAPS 16.00%	GLOBAL SMALL CAPS 37.84%	GLOBAL EQUITIES 15.01%	GLOBAL EQUITIES 19.55%
	FOREIGN EQUITIES 26.37%	CANADIAN BONDS 3.68%	GLOBAL HIGH YIELD BONDS -7.65%	CANADIAN LARGE CAPS 31.94%	CANADIAN LARGE CAPS 13.84%	GLOBAL HIGH YIELD BONDS 8.08%	FOREIGN EQUITIES 15.29%	GLOBAL EQUITIES 35.91%	U.S. SMALL CAPS 14.35%	FOREIGN EQUITIES 19.46%
	GLOBAL SMALL CAPS 20.92%	CANADIAN SMALL CAPS 2.01%	U.S. SMALL CAPS -17.18%	GLOBAL HIGH YIELD BONDS 30.97%	EMERGING MARKETS EQUITIES 12.98%	U.S. LARGE CAPS 4.64%	GLOBAL EQUITIES 13.96%	EUROPEAN EQUITIES 34.41%	CANADIAN LARGE CAPS 12.27%	GLOBAL SMALL CAPS 19.18%
	GLOBAL EQUITIES 20.19%	EUROPEAN EQUITIES -2.98%	U.S. LARGE CAPS -21.20%	GLOBAL SMALL CAPS 28.49%	U.S. LARGE CAPS 9.06%	U.S. SMALL CAPS -1.80%	U.S. SMALL CAPS 13.77%	FOREIGN EQUITIES 31.57%	GLOBAL SMALL CAPS 11.41%	EUROPEAN EQUITIES 17.12%
	CANADIAN LARGE CAPS 19.16%	FOREIGN EQUITIES -5.32%	GLOBAL EQUITIES -25.37%	EUROPEAN EQUITIES 16.18%	GLOBAL HIGH YIELD BONDS 8.45%	GLOBAL EQUITIES -2.67%	U.S. LARGE CAPS 13.43%	GLOBAL HIGH YIELD BONDS 14.75%	GLOBAL HIGH YIELD BONDS 11.04%	GLOBAL BONDS 16.15%
	U.S. SMALL CAPS 17.92%	GLOBAL EQUITIES -7.08%	FOREIGN EQUITIES -28.78%	FOREIGN EQUITIES 12.49%	CANADIAN BONDS 6.74%	EUROPEAN EQUITIES -8.29%	BRIC EQUITIES 12.34%	CANADIAN LARGE CAPS 13.26%	GLOBAL BONDS 9.65%	U.S. SMALL CAPS 14.64%
	CANADIAN SMALL CAPS 16.64%	GLOBAL BONDS -7.15%	GLOBAL SMALL CAPS -29.23%	GLOBAL EQUITIES 11.07%	GLOBAL EQUITIES 6.48%	GLOBAL SMALL CAPS -8.75%	GLOBAL HIGH YIELD BONDS 12.17%	CANADIAN SMALL CAPS 7.76%	CANADIAN BONDS 8.79%	GLOBAL HIGH YIELD BONDS 14.02%
	U.S. LARGE CAPS 15.35%	GLOBAL SMALL CAPS -9.09%	CANADIAN LARGE CAPS -31.17%	U.S. SMALL CAPS 8.00%	BRIC EQUITIES 4.05%	CANADIAN LARGE CAPS -9.08%	CANADIAN LARGE CAPS 8.07%	U.S. BONDS 4.55%	EMERGING MARKETS EQUITIES 7.03%	BRIC EQUITIES 4.04%
	GLOBAL HIGH YIELD BONDS 11.49%	U.S. BONDS -9.28%	EUROPEAN EQUITIES -32.55%	U.S. LARGE CAPS 7.39%	FOREIGN EQUITIES 2.56%	FOREIGN EQUITIES -9.55%	CANADIAN BONDS 3.60%	EMERGING MARKETS EQUITIES 4.29%	BRIC EQUITIES 6.22%	CANADIAN BONDS 3.52%
	GLOBAL BONDS 6.23%	U.S. LARGE CAPS -10.53%	EMERGING MARKETS EQUITIES -41.44%	CANADIAN BONDS 5.41%	U.S. BONDS 0.98%	CANADIAN SMALL CAPS -14.17%	CANADIAN SMALL CAPS 2.46%	GLOBAL BONDS 3.94%	FOREIGN EQUITIES 4.12%	EMERGING MARKETS EQUITIES 2.42%
	CANADIAN BONDS 4.06%	GLOBAL HIGH YIELD BONDS -12.94%	CANADIAN SMALL CAPS -46.61%	GLOBAL BONDS -9.19%	GLOBAL BONDS 0.04%	EMERGING MARKETS EQUITIES -16.15%	GLOBAL BONDS 2.01%	BRIC EQUITIES 3.24%	EUROPEAN EQUITIES 2.82%	CANADIAN LARGE CAPS -7.76%
Worst	U.S. BONDS 3.94%	U.S. SMALL CAPS -16.52%	BRIC EQUITIES -49.14%	U.S. BONDS -10.04%	EUROPEAN EQUITIES -0.96%	BRIC EQUITIES -20.76%	U.S. BONDS 1.91%	CANADIAN BONDS -1.19%	CANADIAN SMALL CAPS -0.09%	CANADIAN SMALL CAPS -13.75%

- **Canadian Large Caps** S&P/TSX 60 TRI
- **Canadian Small Caps** BMO Nesbitt Burns Small Cap TRI
- **U.S. Large Caps** S&P 500 TRI
- **U.S. Small Caps** Russell 2000 TRI
- **Global Equities** MSCI World GRI
- **Global Small Caps** MSCI ACWI Small GRI
- **Foreign Equities** MSCI EAFE GRI
- **European Equities** MSCI Europe GRI
- **Emerging Markets Equities** MSCI EM GRI
- **BRIC Equities** MSCI BRIC GRI
- **Canadian Bonds** FTSE TMX Canada Universe Bond Index
- **U.S. Bonds** Barclays U.S. Aggregate Bond TRI
- **Global Bonds** Barclays Global Aggregate Bond TRI
- **Global High Yield Bonds** Credit Suisse First Boston High Yield Return Index

Source: Morningstar Research Inc., December 31, 2015.

To view a large version of this chart, go to **http://thetylergroup.ca/wp-content/uploads/2017/01/TempletonQuilt.pdf**

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In 2017 you can expect to receive a new improved form of reporting on your mutual fund statements. We welcome this new form of reporting, and are here to help you if you have any questions. Just call us and we will explain any aspect of your statements.

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