

Periodic Table of Asset Class Returns

Demonstrating the Importance of Portfolio Diversification

Canadian investors, along with most investors around the world, tend to have a “home bias,” meaning they invest a large portion of their assets in domestic markets. Investing globally, however, can help reduce the overall risk of your portfolio and at the same time offer increased opportunities for returns. By limiting your investment universe to Canada you may actually be increasing your portfolio’s risk profile. The Periodic Table of Returns, on the following page, reflects the importance of diversification among asset classes.

The Periodic Table of Returns provides an overview of the calendar year returns – from 2005 to 2014 – for a number of global market indices. It clearly demonstrates, for example, why a portfolio invested primarily in Canadian large-cap stocks can be at a disadvantage. Canadian large-cap returns – and small-cap returns for that matter – both outperformed and underperformed other global market indices over this period. Due to the variance in its returns, global, U.S., and Canadian small-cap asset classes should be added in order to complement a well-diversified portfolio.

By only considering sector diversification in Canada an investor could be potentially holding a riskier portfolio than if diversified globally. They may be missing out on certain global sector opportunities that are not available by only investing in Canada. That being said, asset class returns can vary globally from one calendar year to another and timing the correct asset class is a difficult task.

As the Periodic Table of Returns demonstrates on the next page, your portfolio should be well diversified amongst global asset classes to enhance return and reduce risk.

For more guidance or a better understanding on the value of investing globally, be sure to contact your BMO Nesbitt Burns Investment Advisor – who has access to a range of investment opportunities outside of Canada.

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Annual returns for various asset classes – ranked from best to worst – over a 10-year period.

Best ↑ ↓ Worst	Emerging Markets Equities	Emerging Markets Equities	Emerging Markets Equities	Global Bonds	Canadian Small Cap	Canadian Small Cap	Canadian Bonds	Emerging Markets Equities	U.S. Small Cap	U.S. Large Cap
	31.2	32.1	18.5	31.1	62.4	35.1	9.7	16.0	48.1	23.9
	Canadian Large Cap	International Equities	Canadian Large Cap	Canadian Bonds	Emerging Markets Equities	U.S. Small Cap	Global Bonds	International Equities	U.S. Large Cap	U.S. Small Cap
	24.1	26.4	9.8	6.4	52.0	20.2	8.3	15.3	41.3	14.3
	International Equities	U.S. Small Cap	Canadian Bonds	U.S. Small Cap	Canadian Large Cap	Canadian Large Cap	U.S. Large Cap	U.S. Small Cap	International Equities	Canadian Large Cap
	11.2	17.9	3.7	-17.2	35.1	17.6	4.6	13.8	31.6	10.6
	Canadian Small Cap	Canadian Large Cap	Canadian Small Cap	U.S. Large Cap	International Equities	Emerging Markets Equities	U.S. Small Cap	U.S. Large Cap	Canadian Large Cap	Global Bonds
	10.6	17.3	0.9	-21.2	12.5	13.0	-1.8	13.4	13.0	9.7
Canadian Bonds	U.S. Large Cap	International Equities	International Equities	U.S. Small Cap	U.S. Large Cap	Canadian Large Cap	Canadian Large Cap	Canadian Small Cap	Canadian Bonds	
6.5	15.4	-5.3	-28.8	8.0	9.1	-8.7	7.2	7.6	8.8	
U.S. Large Cap	Canadian Small Cap	Global Bonds	Canadian Large Cap	U.S. Large Cap	Canadian Bonds	International Equities	Canadian Bonds	Emerging Markets Equities	Emerging Markets Equities	
2.3	11.6	-7.1	-33.0	7.4	6.7	-9.5	3.6	4.3	7.0	
U.S. Small Cap	Global Bonds	U.S. Large Cap	Emerging Markets Equities	Canadian Bonds	International Equities	Emerging Markets Equities	Global Bonds	Global Bonds	International Equities	
1.9	6.2	-10.5	-41.4	5.4	2.6	-16.1	2.0	3.9	4.1	
Global Bonds	Canadian Bonds	U.S. Small Cap	Canadian Small Cap	Global Bonds	Global Bonds	Canadian Small Cap	Canadian Small Cap	Canadian Bonds	Canadian Small Cap	
-6.9	4.1	-16.5	-45.5	-9.2	0.0	-16.4	-2.2	-1.2	-2.3	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014

Source: Zephyr Style Advisor: BMO Nesbitt Burns

Indices

U.S. Large Cap - S&P 500 Index

U.S. Small Cap - Russell 2000 Index

International Equities - MSCI EAFE Index

Emerging Markets Equities - MSCI Emerging Markets Index

Canadian Large Cap - S&P/TSX Composite Index

Canadian Small Cap - S&P/TSX Small Cap Index

Canadian Bonds - FTSE TMX Universe Bond Index

Global Bonds - Barclays Global Aggregate



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