GUARDIAN CAPITAL | PRIVATE WEALTH

PERSPECTIVES

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PED (Performance Enhancing Discipline)

This month's note is about PEDs — not the performance-enhancing drugs linked to some athletes, but rather, "Performance Enhancing Discipline" for your portfolio.

One of the most common mistakes made by individual investors is chasing performance — reading about the hot stock, sector or fund in the media or hearing friends discuss it over cocktails and buying the security with hopes that the blowout returns will continue. Unfortunately, those stratospheric returns are typically not sustainable, and once it receives attention in the press and among your social circles, the best days have passed — there is an adage in investing: to sell the story on page 1, and buy the story on page 15 that is on its way to page 1.

As the table below illustrates, performance leadership among asset classes changes year-to-year and it is often the case that the laggards in one year are the stars in the next (and vice versa). By chasing after what has previously done well and eschewing the underperformers, investors often leave themselves worse off — and the public tends to buy the most at the top and the least at the bottom.

Emotional responses can drive investors to become short-sighted and undisciplined — the "fear of missing out" on an upswing can be strong, as can excessive risk aversion in periods of broad-based market turbulence — and this carries significant (negative) implications for long-term portfolio performance.

A seasoned investor knows it is always better to remain unemotional with respect to investing. Instead, taking a disciplined and long-term approach to asset mix decisions — with long-term strategic portfolio allocations serving as a tether to rein in impulses, selling or trimming what is expensive (and has performed well), buying what is cheap (and unperformed). It may sound simple, but can prove deceptively difficult in practice once emotions are involved. A useful tool in this regard is to set an appropriate Investment Policy Statement that provides guidelines for periodic rebalancing across asset classes. By buffering the emotional urges that percolate at market extremes, the benefit of this discipline can serve to enhance investment performance for investors over the long-term.

Calendar Year Asset Class Total Returns (%, C$)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EM Equity 54.0	HY Bonds 22.0	Gov't Bonds 9.6	HY Bonds 15.9	US Equity 41.7	US Equity 24.4	US Equity 20.7	Canadian Equity 21.1	EM Equity 28.4	US Equity 3.7
Canadian Equity 35.1	Canadian Equity 17.6	IG Bonds 7.9	EM Equity 14.8	EAFE Equity 31.5	Canadian Equity 10.6	EAFE Equity 18.1	HY Bonds 16.1	EAFE Equity 17.0	Gov't Bonds 2.5
HY Bonds 31.9	EM Equity 12.8	US Equity 4.5	EAFE Equity 13.9	Canadian Equity 13.0	Gov't Bonds 7.5	Gov't Bonds 3.7	US Equity 8.7	US Equity 14.0	HY Bonds 2.0
IG Bonds 15.3	US Equity 9.2	HY Bonds 2.4	US Equity 12.7	HY Bonds 5.8	IG Bonds 7.4	IG Bonds 2.7	EM Equity 8.0	Canadian Equity 9.1	IG Bonds 1.0
EAFE Equity 13.7	IG Bonds 7.3	Canadian Equity -8.7	Canadian Equity 7.2	EM Equity 4.3	EM Equity 7.0	EM Equity 1.3	IG Bonds 3.6	HY Bonds 8.5	EAFE Equity -6.5
US Equity 9.1	Gov't Bonds 6.2	EAFE Equity -10.1	IG Bonds 6.5	IG Bonds 0.8	EAFE Equity 4.0	HY Bonds -2.4	Gov't Bonds -0.4	IG Bonds 3.5	EM Equity -7.3
Gov't Bonds -1.5	EAFE Equity 2.2	EM Equity -16.5	Gov't Bonds 2.2	Gov't Bonds -2.3	HY Bonds 1.2	Canadian Equity -8.3	EAFE Equity -1.9	Gov't Bonds 0.1	Canadian Equity -8.9

Source: Bloomberg, Guardian Capital; Canadian Equity=S&P/TSX; US Equity=S&P 500; EAFE Equity=MSCI EAFE; EM Equity=MSCI Emerging Markets; Gov't Bonds=ICE BAML Canada Government; IG Bonds=ICE BAML Canada Corporate; HY Bonds=ICE BAML Canada High Yield