The Dangers of Playing it Safe

When people think about "safety" in the context of their investments, they often focus on assets that experience limited price fluctuations, especially on the downside. Investors can be reasonably assured that the capital invested in low-volatility assets, such as cash and short-term bonds, will be preserved even if the broader market environment turns negative.

However, defining safety solely as the absence or lack of volatility can be misleading, especially for investors with longer-term goals and time horizons.

Volatility is the cost of generating returns. While avoiding volatile assets may reduce the likelihood of short-term losses, it can mean forgoing the opportunity to generate wealth gains over time. Accordingly, an excessive focus on capital preservation can create a different risk: failing to keep pace with inflation and preserve the *purchasing power* of invested capital.

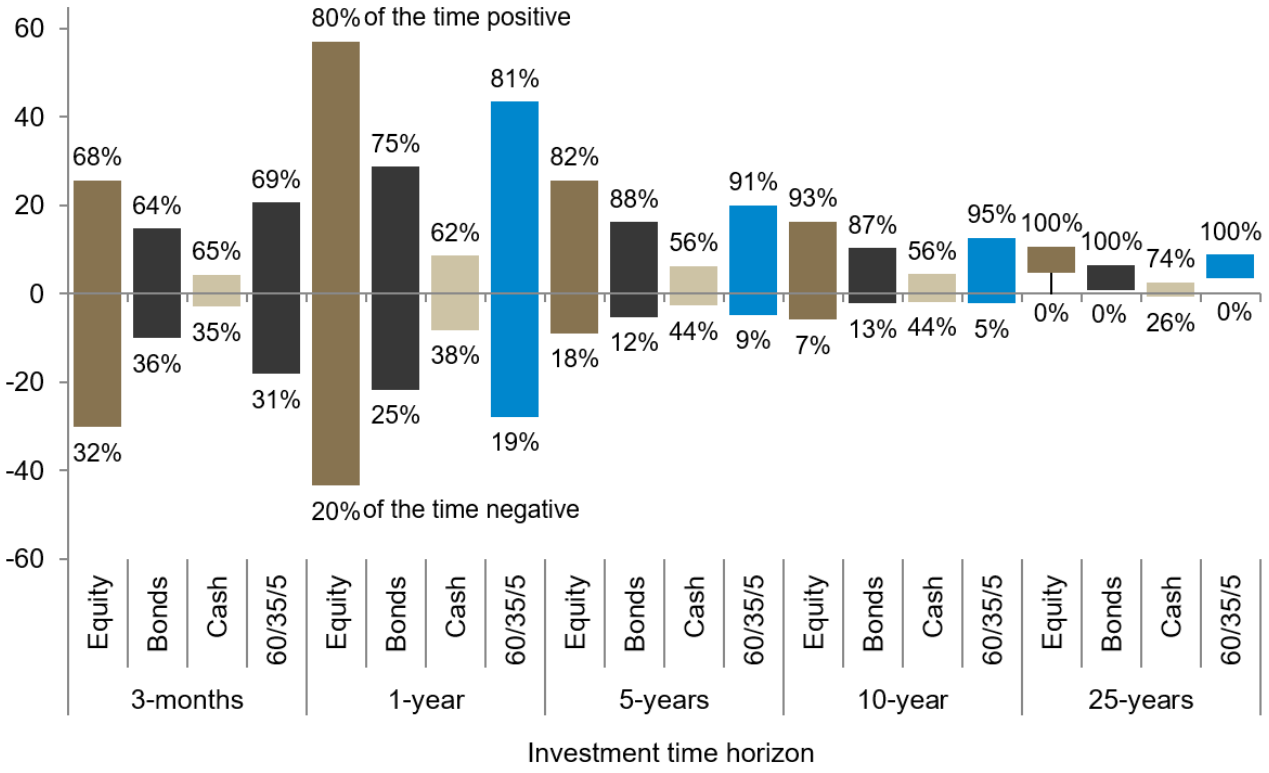
Data covering the last four-and-a-half decades highlights how inflation-adjusted performance of riskier assets such as equities and bonds can have a wide range of outcomes over short time periods. As the time horizon is extended, however, those return ranges narrow, and the likelihood of negative real returns declines significantly.

At a 10-year time horizon, equity (represented by the S&P 500 Index[1]) and bond (represented by the Bloomberg U.S. Aggregate Bond Index[2]) performance have outpaced inflation roughly 90% of the time, compared to only 56% for cash (proxied by 3-month U.S. Treasury bills). Looking over 25-year periods since 1981, neither equities nor bonds underperformed inflation, while cash failed to keep up with inflation roughly one quarter of the time. History suggests that the low-volatility investment is not necessarily the safest one.

[1] The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap U.S. equity universe.
[2] The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed- rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Range of historical asset class inflation-adjusted* performance by investment time horizon

(annualized percent)



**Asset class performance deflated by U.S. consumer price index; Equity=S&P 500; Bonds=Bloomberg U.S. Aggregate Bond Index; Cash=Bloomberg 3-month Treasury Index; 60/35/5 is a portfolio of 60% equity, 35% bonds and 5% cash; source: Guardian Capital LP, based on data from Bloomberg from January 1981 to October 2026*

True safety from a portfolio perspective is not the absence of risk, because there is no such thing as a truly "risk-free" investment. Instead, safety is about managing risks such that they adequately align with investor time horizons, objectives and financial goals.

While past performance does not guarantee future results, history suggests that a well-diversified portfolio combining high-quality growth-oriented assets with lower-volatility assets can help investors navigate periods of market turbulence and improve the likelihood of achieving their long-term financial objectives. In many cases, the greatest risk is not short-term volatility, but being too conservative and falling short of the returns needed to meet future spending and financial objectives.

PERSPECTIVES

NOVEMBER

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