A CRASH COURSE ON

Diversifying *your investment portfolio*

1. What is diversification?
2. Diversifying by asset class
3. Diversifying by industry
4. Why diversification works
5. Limits of diversification

WHAT IS DIVERSIFICATION?

Diversification is a strategy that mixes a wide variety of investments within a portfolio in an attempt to reduce portfolio risk.

AND WHY IS THIS IMPORTANT?

WHY IS IT IMPORTANT?

INVESTMENT DIVERSIFICATION

01

If you hold just **one** investment and it performs badly, you could lose **all of your money.**

02

If you hold a diversified portfolio with a **variety** of different investments, it's much less likely that **all** of your investments will perform badly **at the same time.**

03

The profits you earn on the investments that perform well **offset** the losses on those that perform poorly.

WE'VE ALL HEARD THE SAYING

"Don't put all your eggs in 1 basket."

The question then becomes: "how many eggs and what kind of eggs do I put in my basket?"

DIVERSIFYING BY ASSET CLASS OR "ASSET ALLOCATION"

But first...
A QUICK PRIMER ON ASSET CLASSES.

Stocks
Shares or equity in a publicly traded company

Bonds
Government and corporate fixed-income debt instruments

Real estate
Land, buildings, natural resources, agriculture, livestock, and water and mineral deposits

Exchange-traded funds (ETFs)
A marketable basket of securities that follow an index, commodity, or sector

Commodities
Basic goods necessary for the production of other products or services

Cash and short-term cash-equivalents (CCE)
Treasury bills, certificate of deposit (CD), money market vehicles, and other short-term, low-risk investments.

But first...
A QUICK PRIMER ON
ASSET CLASSES.

this is where we'll focus first

Stocks
Shares or equity in a publicly traded company

Bonds
Government and corporate fixed-income debt instruments

Real estate
Land, buildings, natural resources, agriculture, livestock, and water and mineral deposits

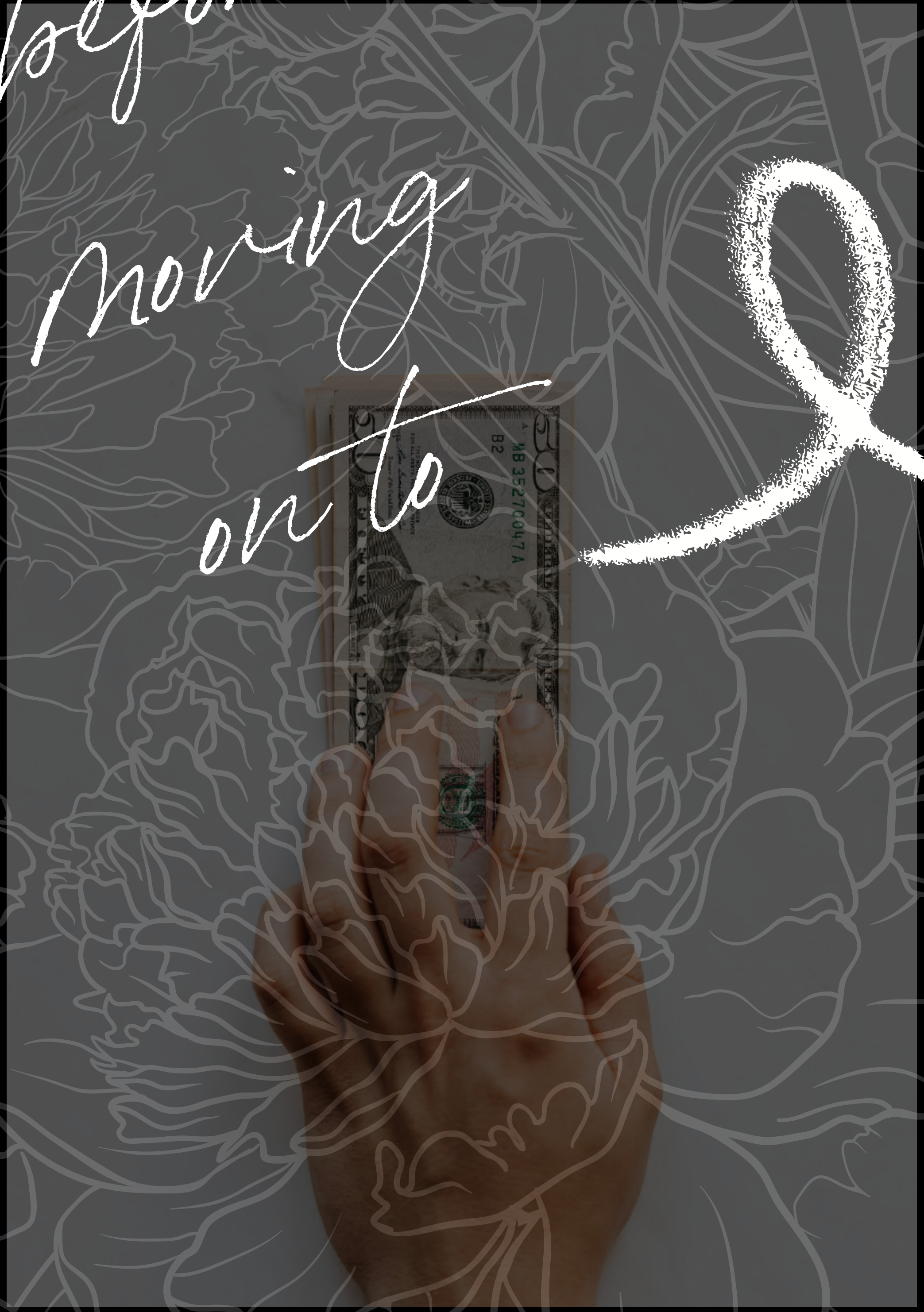
Exchange-traded funds (ETFs)
A marketable basket of securities that follow an index, commodity, or sector

Commodities
Basic goods necessary for the production of other products or services

Cash and short-term cash-equivalents (CCE)
Treasury bills, certificate of deposit (CD), money market vehicles, and other short-term, low-risk investments.

But first...
A QUICK PRIMER ON ASSET CLASSES.

before moving on to



Stocks
Shares or equity in a publicly traded company

Bonds
Government and corporate fixed-income debt instruments

Real estate
Land, buildings, natural resources, agriculture, livestock, and water and mineral deposits

Exchange-traded funds (ETFs)
A marketable basket of securities that follow an index, commodity, or sector

Commodities
Basic goods necessary for the production of other products or services

Cash and short-term cash-equivalents (CCE)
Treasury bills, certificate of deposit (CD), money market vehicles, and other short-term, low-risk investments.

now back to diversification…

Diversifying BY ASSET CLASS IS TYPICALLY WHAT PEOPLE TALK ABOUT.

But... DIVERSIFICATION AND ASSET ALLOCATION AREN'T THE SAME

Asset allocation means you invest your money across all categories or asset classes. Some money is put in stocks and some of your investment funds are put in bonds and cash or another type of asset class.

Diversification focuses on investing in a number of different ways using the same asset class, while asset allocation focuses on investing across a wide range of asset classes to lessen the risk.

When you diversify your portfolio, you focus on investing in just one asset class, like stocks, and you go deep within the class with your investments.

important!

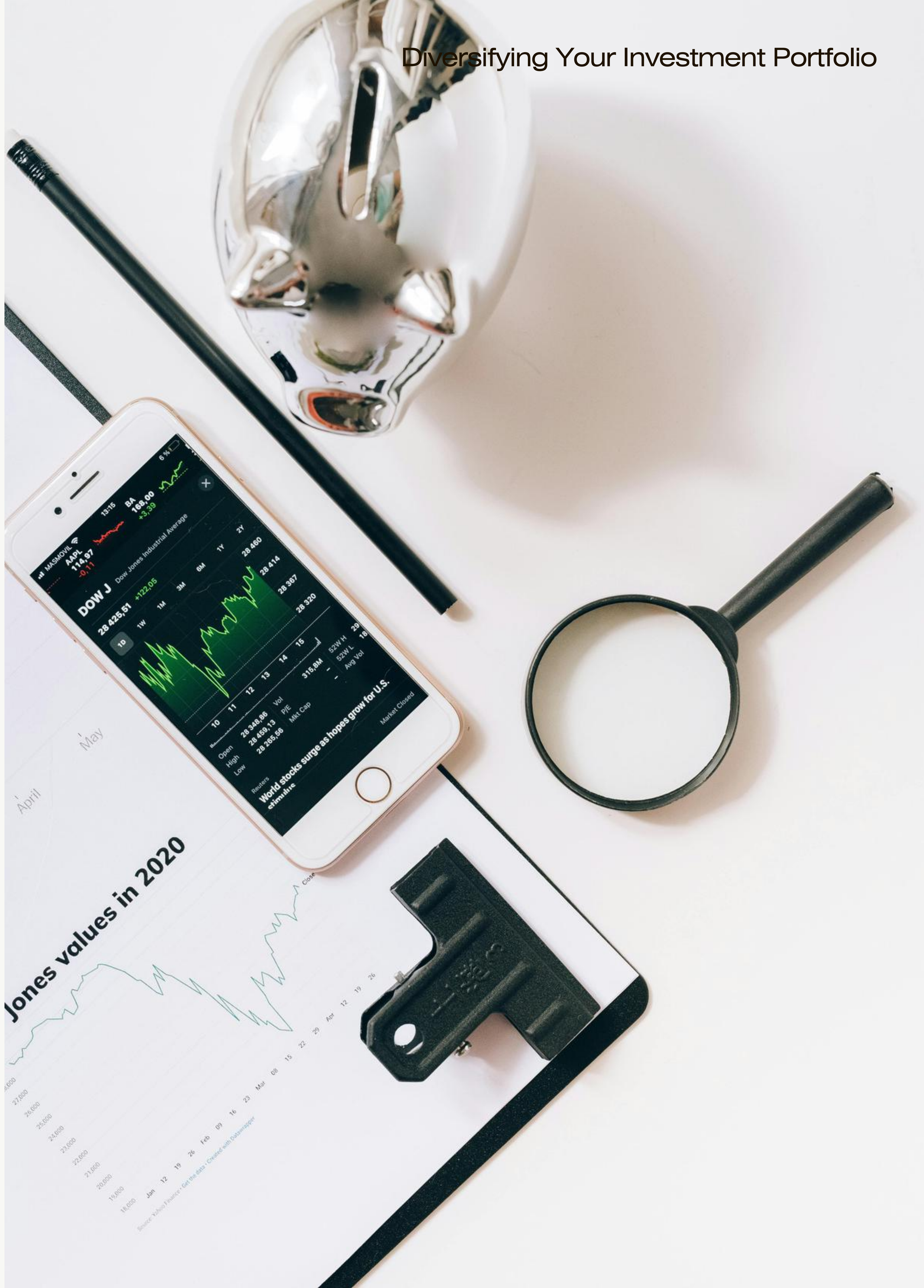
THE BENEFITS *of diversification* ONLY HOLD IF THE SECURITIES ARE NOT CORRELATED.

IN ENGLISH...

THAT IS, THEY RESPOND DIFFERENTLY, OFTEN IN OPPOSING WAYS, TO MARKET INFLUENCES.

FOR EXAMPLE...

Bonds and stocks often move in opposite directions. When investors expect the economy to weaken and corporate profits to drop, stock prices will likely fall.



FOR EXAMPLE...

Bonds and stocks often move in opposite directions. When investors expect the economy to weaken and corporate profits to drop, stock prices will likely fall.

WHEN THIS HAPPENS...

Central banks may cut interest rates to reduce borrowing costs and stimulate spending

AND THIS CAUSES....

bond prices to rise. If your portfolio includes both stocks and bonds, the increase in the value of bonds may help offset the decrease in the value of stocks. The reason for including bonds in a portfolio is not to increase returns but to reduce risk.

4 REASONS TO DIVERSIFY AND PERFORM ASSET ALLOCATION

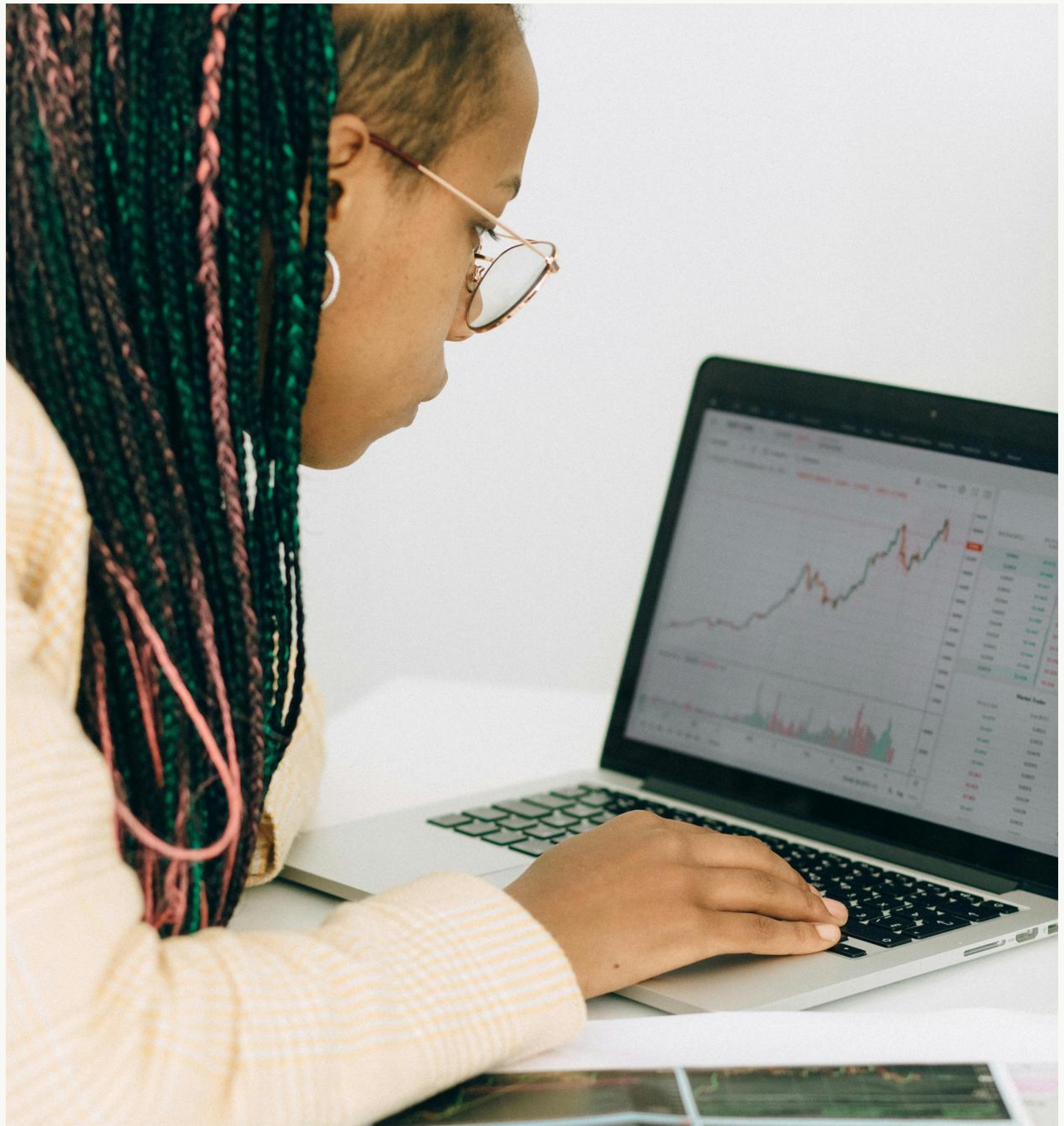
1. Not all types of investments perform well at the same time.

2. Different types of investments are affected differently by world events and changes in economic factors such as interest rates, exchange rates and inflation rates.

3. Diversification enables you to build a portfolio whose risk is smaller than the combined risks of the individual securities.

4. If your portfolio is not diversified, it will be unnecessarily risky. You will not earn a higher average return for accepting the unnecessary risk.

The industry RULE OF THUMB



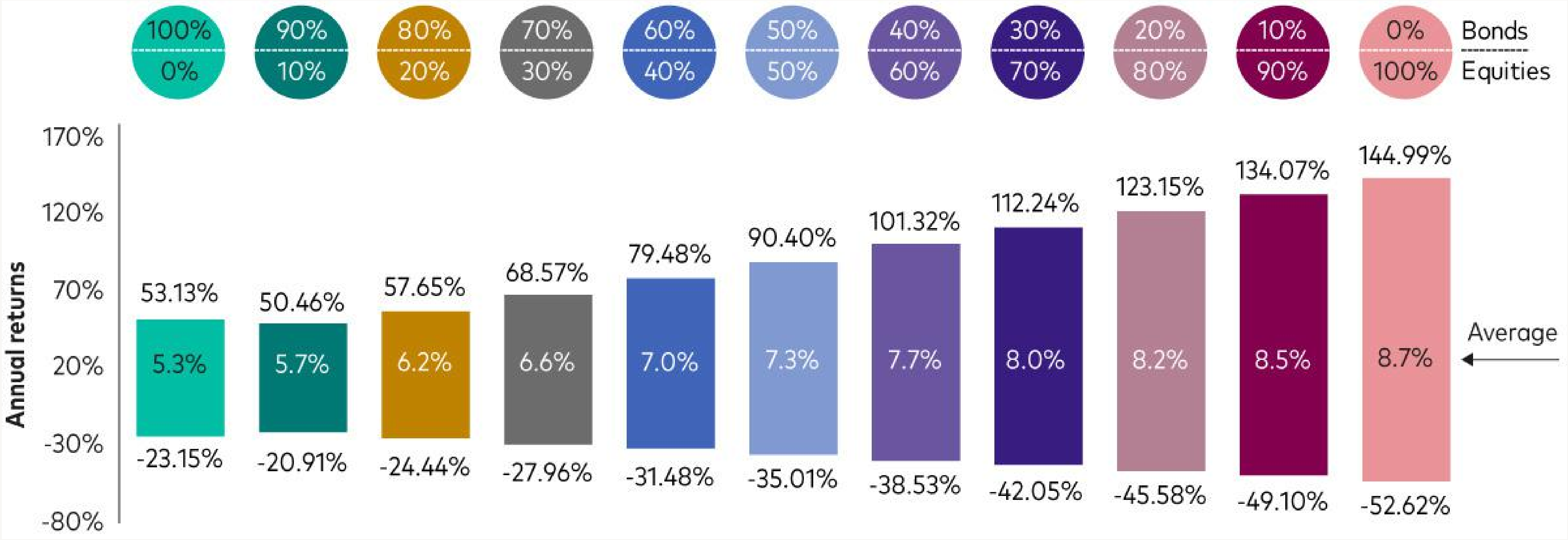
A common asset allocation rule of thumb is the rule of 110. It is a simple way to figure out what percentage of your portfolio should be kept in stocks.

To determine this number, you simply take 110 minus your age. So, if you are 40, then the rule states that 70% of your portfolio should be kept in stocks. The remaining 30% should be kept in bonds and cash.

NOTE

This rule of thumb can be adjusted to reflect your own personal risk tolerance. If you have a high tolerance for risk, then maybe you want 80% or even 100% of your portfolio in stocks. The opposite holds true as well.

THE MIXTURE OF ASSETS DEFINES THE SPECTRUM OF RETURNS



***Past performance is not a reliable indicator of future results. ***

Notes: Reflects the maximum and minimum calendar year returns, along with the average annualised return, from 1901-2022, for various stock and bond allocations, rebalanced annually. Equities are represented by the DMS UK Equity Total Return Index from 1901 to 1969; thereafter, equities are represented by the MSCI UK. Bond returns are represented by the DMS UK Bond Total Return Index from 1901 – 1985; the FTSE UK Government Index from Jan 1986 – Dec 2000 and the Bloomberg Barclays Sterling Aggregate thereafter. Returns are in sterling, with income reinvested, to 31 December 2022.

Source: Vanguard.

3

DIVERSIFYING BY INDUSTRY

SO MY PORTFOLIO IS 100% STOCKS

CAN I STILL DIVERSIFY?

You can diversify **within an asset class** (stocks for example), but simply increasing the number of stocks will not reduce risk.

To diversify, you need to select stocks whose prices **do not move together**.

Variations in the returns of one stock should **offset** variations in the returns of other stocks. **Stocks within the same industry generally have prices that move together.**

Can I have a few examples?

These stocks will move together...

01 **ENERGY** (examples: oil and gas, pipelines)

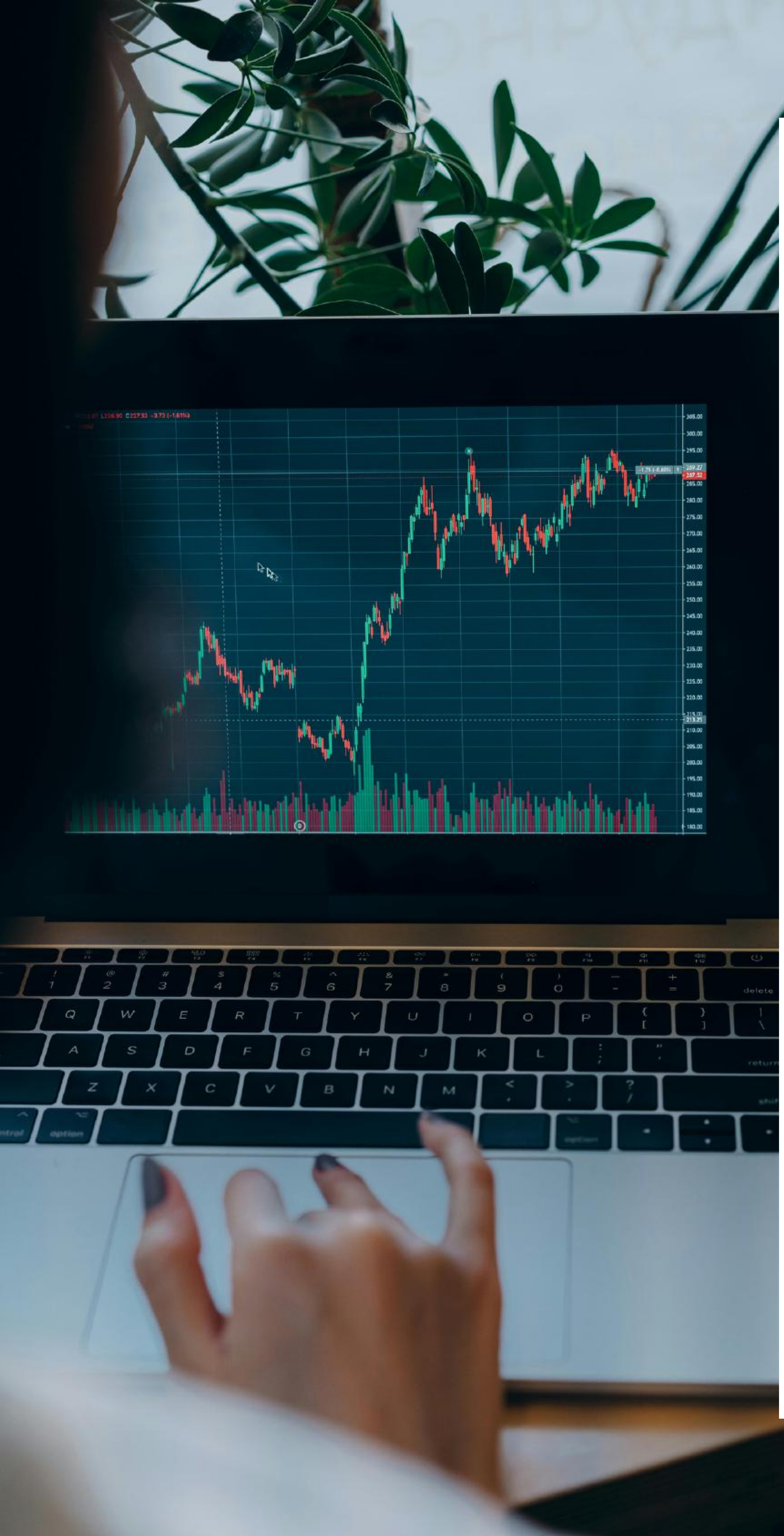
02 **INDUSTRIALS** (examples: manufacturers, railways)

03 **UTILITIES** (example: electricity companies)

04 **CONSUMER STAPLES** (examples: supermarkets, drugstores)

THE SIMPLEST EXAMPLE...

If you have a portfolio that's 100% coke, you aren't diversifying if you split your portfolio 50% coke and 50% pepsi.



Another example...

A portfolio initially consists of the shares of a bank. You add the shares of another bank. This will reduce the risk of the portfolio by very little because all banks are affected by the same economic conditions, like changes in interest rates. When the shares of a bank drop, those of other banks are likely to drop too.

To diversify the portfolio, you could add the shares of companies from other industries, such as energy and health care.

And now...

ABOUT OUR ETFs

CONSIDER VCE

Vanguard FTSE Canada Index ETF | VCE

ETF characteristics

	VCE	Benchmark
Number of stocks	50	53
Median market cap	$75.1B	$75.1B
Price/earnings ratio	17.3x	16.8x
Price/book ratio	2.0x	2.0x
Return on equity	12.4%	12.6%
Earnings growth rate	10.8%	11.0%
Equity yield (dividend)	3.2%	3.3%

Top 10 holdings (% of net asset value)

	VCE
Royal Bank of Canada	7.9%
Toronto-Dominion Bank	6.1
Shopify Inc.	4.7
Canadian Natural Resources Ltd.	4.7
Enbridge Inc.	4.4
Canadian Pacific Kansas City Ltd.	4.2
Canadian National Railway Co.	4.0
Bank of Montreal	3.7
Brookfield Corp.	3.5
Bank of Nova Scotia	3.2
Total	46.4%

Sector weighting

	VCE	Benchmark
Financials	39.1%	39.0%
Energy	19.5	18.1
Basic Materials	8.9	8.5
Technology	8.9	8.7
Industrials	8.3	8.2
Consumer Discretionary	5.8	6.6
Utilities	4.1	4.3
Telecommunications	3.1	3.5
Consumer Staples	2.3	2.7
Health Care	0.0	0.4
Other	0.0	0.0
Total	100.0%	100.0%

The sector allocations provided exclude any temporary cash investments.
Sector categories are based on the Industry Classification Benchmark system ("ICB"), except for the "Other" category (if applicable), which includes securities that have not been provided an ICB classification as of the effective reporting period.

CONSIDER VCE

already diversified for you

Vanguard FTSE Canada Index ETF | VCE

ETF characteristics

	VCE	Benchmark
Number of stocks	50	53
Median market cap	$75.1B	$75.1B
Price/earnings ratio	17.3x	16.8x
Price/book ratio	2.0x	2.0x
Return on equity	12.4%	12.6%
Earnings growth rate	10.8%	11.0%
Equity yield (dividend)	3.2%	3.3%

Top 10 holdings (% of net asset value)

	VCE
Royal Bank of Canada	7.9%
Toronto-Dominion Bank	6.1
Shopify Inc.	4.7
Canadian Natural Resources Ltd.	4.7
Enbridge Inc.	4.4
Canadian Pacific Kansas City Ltd.	4.2
Canadian National Railway Co.	4.0
Bank of Montreal	3.7
Brookfield Corp.	3.5
Bank of Nova Scotia	3.2
Total	46.4%

Sector weighting

	VCE	Benchmark
Financials	39.1%	39.0%
Energy	19.5	18.1
Basic Materials	8.9	8.5
Technology	8.9	8.7
Industrials	8.3	8.2
Consumer Discretionary	5.8	6.6
Utilities	4.1	4.3
Telecommunications	3.1	3.5
Consumer Staples	2.3	2.7
Health Care	0.0	0.4
Other	0.0	0.0
Total	100.0%	100.0%

The sector allocations provided exclude any temporary cash investments. Sector categories are based on the Industry Classification Benchmark system ("ICB"), except for the "Other" category (if applicable), which includes securities that have not been provided an ICB classification as of the effective reporting period.

Is it enough for me to just hold a few equity ETFs and forget about *BONDS?*

my personal opinion...

EVENTUALLY, I BELIEVE IN EXPLORING OTHER ASSET CLASSES,

BUT I WANT TO GET YOU STARTED.

Getting started in equities gets you in the game. You are getting your feet wet, and in most cases, many of us are starting small - with a few hundred or couple thousand.

As we age, and our time horizon decreases, I suggest pivoting more to bonds. We are giving up return in exchange for “safety”. Since a bond is a promise to pay back a loan (by a bank or corporation), that money is generally less risky than equity. But we’ll cover that more heavily another time.

BUT WAIT

WHAT ABOUT CASH?

I hear banks are offering savings account incentives. Should I consider keeping my money in a savings account?

THIS IS SOMETHING I HAVE BEEN SEEING LATELY

Banks want your money because they want to lend it out at a higher rate.

- Aside from the difference in interest rates, high-yield savings accounts work much like standard savings accounts. The bank may ask you to fill out an application and make a minimum cash deposit to open the account. Then the bank pays you interest on the money you deposit.

- It's likely not the best vehicle for a long-term savings goal like retirement because rates on savings accounts typically won't beat the rate of inflation.

MOST IMPORTANTLY

Don't forget..

- You will be **taxed** on the interest you receive in a savings account.
- This is only a short term "introductory" interest rate.
- The bank will send you a T5 every year, reflecting interest earned to put on your tax return.
- With ETFs, you are only taxed when you **SELL** (unless you have it in a tax advantaged account - then you pay nothing!)

The argument for keeping a % of your assets in *CASH*

my personal opinion...

THE BENEFIT FOR HOLDING "CASH"

1) If I need money TODAY, it's there.

2) If the market is down and I want to buy MORE, I have the cash to do it with (dollar cost averaging).

3) If I need the funds immediately, and the market is down, I will be withdrawing at a time my investments are down (and therefore, losing money)

ALL OF THIS IS TRUE, BUT:

- for us single moms just starting out, getting into the investing **habit** is priority.
- the dollar amounts we are talking about are **VERY** small, and my view is that overcomplicating things will **PREVENT** action that will benefit your family in the long term.
- For example, imagine the market is down 5% from when you started. You invested $10,000, and your portfolio is worth $9,500 at this point in time. Ideally - not your best time to make a withdrawal. If you do need to withdraw $1000 for an emergency, you're "down $50". (5% of $1000). Remember, this works in both directions, and the "changes" over time, are better for your investment to have INCREASED over the time period you invested.

CAN I PUT CASH INTO AN ETF?

WE CAN and HERE'S HOW!

ZMMK
$49.925 ↑ 0.03%

OVERVIEW | NEWS | KEY DATA | TRADE HISTORY | FILINGS | OPTIONS

Key Data

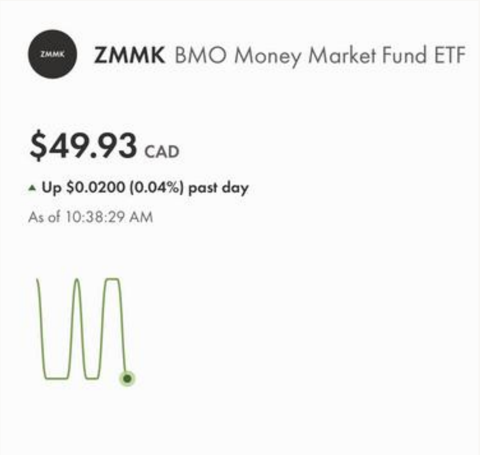
RT Last updated: Jun 3, 2024, 10:35 AM ET | Source: QuoteMedia

Open	**Day High/Low**	**52 Week High/Low**	**Close**	**Prev. Close**
49.93	49.93/49.92	50.11/49.86	—	49.91
Volume	**Consolidated Volume**	**AUM**	**Market Cap (All Classes)**	**Listed Units Out**
25,387	52,224	1,297,302,124	—	25,985,020
Total Shares (All Classes)	**EPS (TTM)**	**P/E Ratio (TTM)**	**Distribution**	**Distribution Frequency**
—	—	—	0.215 CAD	Monthly
Distribution Yield	**Exp. Dividend Date**	**Short Interest as % of Float**	**Short Interest Days to Cover**	
5.047%	2024-05-30	0.08%	0.15	

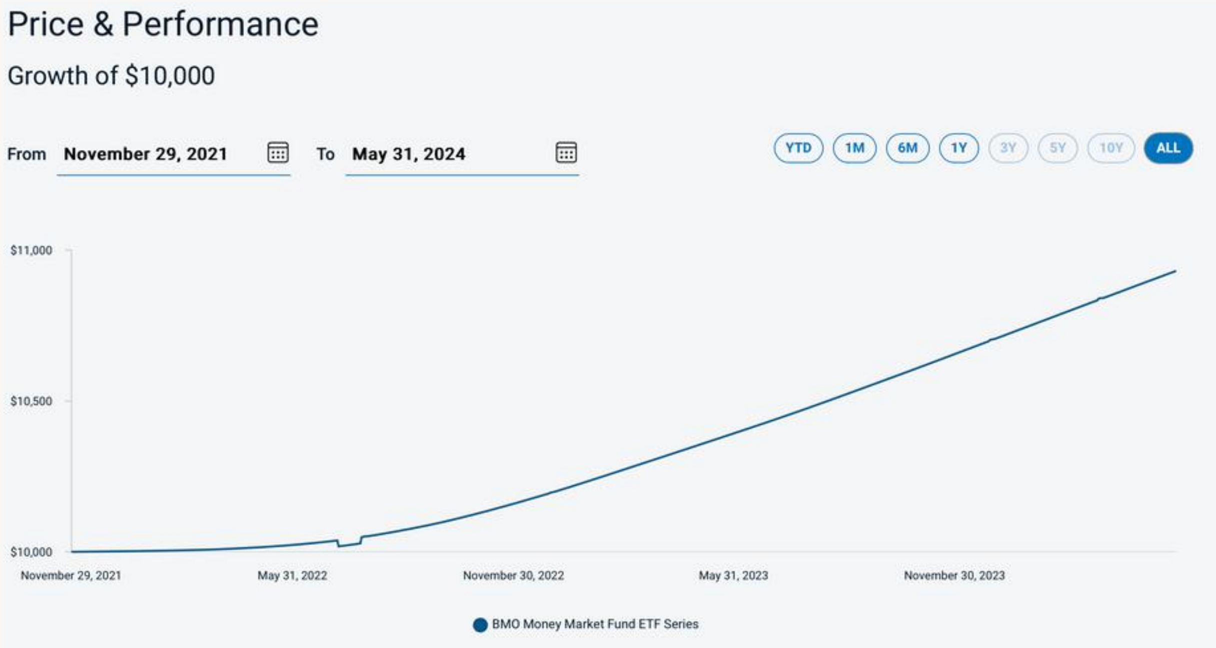
What the heck is a money market fund?

CAN I PUT CASH INTO AN ETF?

WE CAN and HERE'S HOW!



A money market fund invests in **securities** (not actual cash). These securities are **very short term** and **very high quality.**



Examples are Canadian T-Bills, bankers acceptances, commercial paper that allow you to "equitize" your cash - translation - get a return on your cash with **very very VERY** low risk.

In **SOME** cases, I would recommend a vehicle like this. As you can see on the return chart, you can see a steady upward movement.

The thing is, again, most of us are dealing with **small** amounts of capital, and my view is that **getting in the game**, starting to gain confidence in your investing prowess and going through the motions of buying "safe" equity should be prioritized.

Remember, if you keep this instrument in a TFSA, you don't get taxed on the interest income!

“

What do I do? I keep enough in my chequing account to pay my immediate bills. Everything else is in an equity ETF making money.

If I need more money, I can sell some stock and have the proceeds in my account in 3 days.

4

WHY DIVERSFICATION WORKS

THE BOTTOM LINE

- Diversification can help YOU manage risk and reduce the volatility of portfolio's price movements. Remember, though, that no matter how diversified your portfolio is, risk can **never be eliminated completely.**

- There is discussion over how many stocks are needed to reduce risk while maintaining a high return**.** The most conventional view argues that an investor can achieve optimal diversification with **only 15 to 20 stocks** spread across various industries. But remember**, they must not move together!**

- I don't want you to get too far in the weeds here. **I want you to get started.** With the ETF strategy, we've been working on, most of the work has **already been done for you.**

which brings to the

LAST POINT

5

THE LIMITS OF DIVERSIFICATION

IMPORTANT TO KNOW

Remember, however, that no matter how diversified your portfolio is, risk can never be eliminated completely.

WHAT CAN'T DIVERSIFICATION DO?

Systematic risk affects the market in its entirety, not just one particular investment vehicle or industry.

COMMON CAUSES:

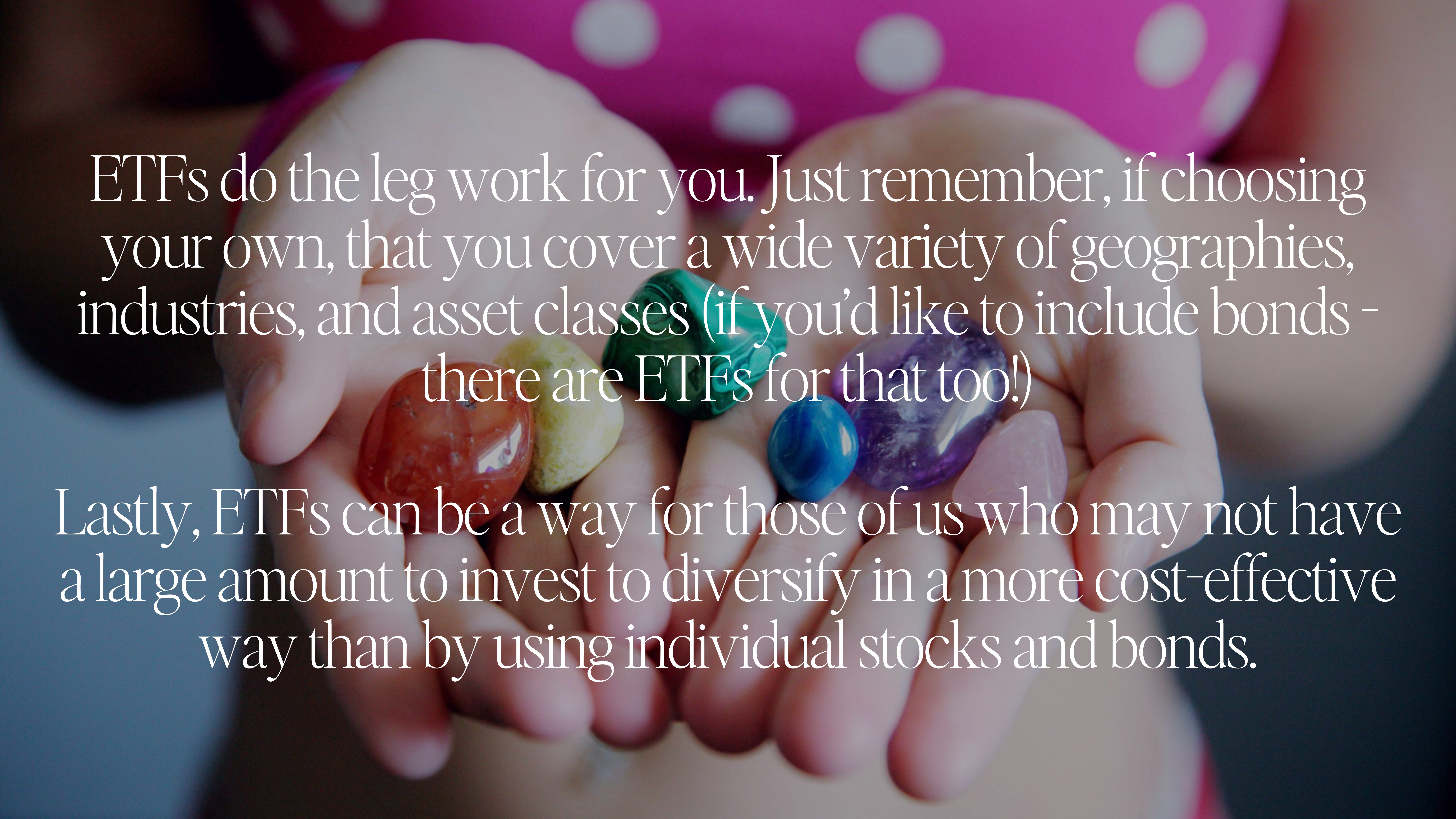
- inflation rates and interest rates
- exchange rates
- political instability / war
- a pandemic?!

SO WHAT TYPE OF RISK DOES DIVERSIFICATION REDUCE?

UNSYSTEMATIC / DIVERSIFIABLE

The most common sources of unsystematic risk are business risk and financial risk.

Thus, the aim is to invest in various assets so they won't all be affected the same way by market events.



ETFs do the leg work for you. Just remember, if choosing your own, that you cover a wide variety of geographies, industries, and asset classes (if you'd like to include bonds - there are ETFs for that too!)

Lastly, ETFs can be a way for those of us who may not have a large amount to invest to diversify in a more cost-effective way than by using individual stocks and bonds.


Q&A
ASK ME ANYTHING

Let's be friends.

@SINGLEMOMBYDESIGN

SINGLEMOMBYDESIGN.CA