

Does your portfolio have the discipline it needs?

If the markets have taught us anything over the past few years, it's that, a disciplined investment process will always be vital to achieving long-term investment success.

A disciplined investment process means having a thorough understanding of your risk and return objectives, and sticking to an appropriate investment mix for your portfolio.

Yet, for many investors, this time-tested strategy is often abandoned when the markets get volatile whether going up or down.

"It's different this time"

It is often said that these are the most expensive words in the English language. Speculative stock market booms can't change the basic laws of business... but fantasy can take over, for a time.

One only has to look back to 1999 when investors had bid US stocks up to an all-time record five-year return of 26.3%. However, mere months later, they were blindsided when the technology boom came to a crashing halt.

In general, the investors who avoided the worst losses were those that had a disciplined investment process.

Get balanced

Studies have consistently shown that asset allocation can account for more than 90% of a portfolio's overall volatility. That's why the first step in a disciplined process is to design a well-balanced portfolio.

This means defining your need for growth, and your tolerance for risk. From there, you can intelligently diversify your assets among the major asset classes - cash, fixed income and equities - and also among a range of international markets and investment management styles.


Stay balanced

Balancing your portfolio is easier than keeping it balanced. Why? Because rebalancing means that sometimes you will have to sell a strong-performing investment in order to buy more of a weaker-performing investment.

Your portfolio is designed based on your personal risk and reward profile, as well as a clear understanding of the long-term performance characteristics of a variety of asset classes and investment styles. Rebalancing simply keeps you on track to the goals you set in the first place.

It may take discipline to sell a top-performing investment when it pushes your portfolio allocations out of line, but it's also a strategy that could save you from an unexpected drop in the markets.





That's not the only benefit of disciplined rebalancing. Let's say your portfolio has a target international equity allocation of 20%, but international equity markets perform poorly and drag your portfolio allocation down to 10%. At this point, if you buy more international equities and bring your weighting back up to 20%, you will be in a very good position to profit when international equities rebound. On the other hand, if you don't rebalance, it could take twice as long to recover your investment in that sector.

The bottom line: avoiding pitfalls and smoothing out the financial path to your goals is all about following a disciplined investment process.

A ScotiaMcLeod advisor has the knowledge, resources and team of experts to help you establish a winning portfolio and keep it on track.

This publication has been prepared by ScotiaMcLeod, a division of Scotia Capital Inc.(SCI), a member of CIPF. This publication is intended as a general source of information and should not be considered as personal investment, tax or pension advice. We are not tax advisors and we recommend that individuals consult with their professional tax advisor before taking any action based upon the information found in this publication. This publication and all the information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without in each case the prior express consent of SCI. Scotiabank Group refers to The Bank of Nova Scotia and its domestic subsidiaries. TM Trademarks of The Bank of Nova Scotia.

