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## **BMO ETFs**

# **Asset Allocation ETFs: What's All the Hype About?**

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Capital you invest is at risk





**Exchange Traded Funds** 

by BMO Global Asset Management

## ETF **MARKETINSIGHTS**



#### TODAY'S SPEAKERS



**Erin Allen** Director, Online Distribution, **BMO ETFs** 



Michelle Allen Sr. Associate, Online Distribution, **BMO ETFs** 



### What is Asset Allocation?

## 66 Asset allocation explains over 90 per cent of the 99 variation in a portfolio's quarterly returns

1986 study by Brinson, Hood, and Beebower, "Determinants of Portfolio Performance"

#### **ASSET ALLOCATION**

Asset allocation is the diversification of your retirement account across stocks, bonds, and cash.



#### Stocks

Hold 20 or more individual stocks or invest in mutual funds or exchange-traded funds (ETFs).



#### **Bonds**

Diversify your bond holdings by investing in municipal, corporate, and government bonds.



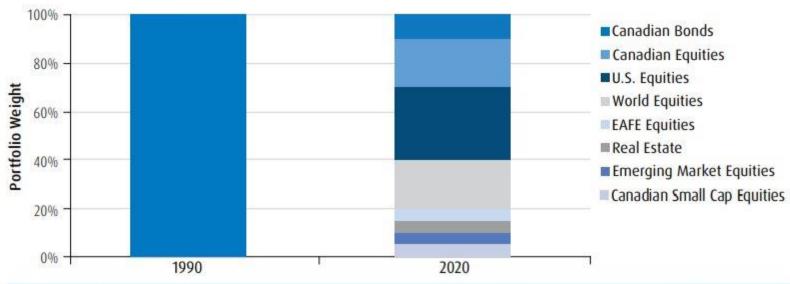
#### Cash

You might diversify how you hold your cash to maximize your liquidity and interest earnings.

he Motley Foo

Image source: The Motley Fool.

### Asset allocation has evolved



5-year annualized, ending December	1990	2020
5-year annualized return (%)	9.71	10.04
Standard Deviation	6.90	12.24

Source: Morningstar Direct, as at 31 December 2020 in Canadian dollars. Canadian Small Cap Equities, Emerging Market Equities, Real Estate, EAFE Equities, World Equities, U.S. Equities, Canadian Equities, Canadian Bonds represented by S&P/TSX Small Cap Index, MSCI EM Index, DJ Brookfield Global Infrastructure North American Index, MSCI EAFE Index, MSCI World Index, S&P 500 Index, S&P/TSX Composite Index and FTSE Canada Universe Bond Index.<sup>2</sup>

### In the news...

As of March 2023, this type of ETF represented >5% (or \$22.3 billion) of the total in ETF assets in Canada\*

## **Unsung heroes of Canadian portfolios**

Asset-allocation ETFs aren't flashy or headline-grabbing, but they deliver consistent performance

By: Dwarka Lakhan | Source: Investment Executive | October 12, 2021 | 00:08



MoneySense

#### Best ETFs for 2024: Best all-in-one ETFs for Canadian investors



What the financial industry likes to call asset-allocation or all-in-one exchange-traded funds (ETFs) are the perfect solution for Canadian...

4 weeks ago



Stocktrades

#### An Overview of Canadian Asset Allocation ETFs in 2024



Whether you are looking for a growth-based allocation (ZGRO.T - BMO Growth ETF) or more of a balanced approach (ZBAL.T - BMO Balanced ETF),...

3 weeks ago



The Globe and Mail

#### A look at how people are using the best all-around investing product. Plus, top stock picks from our new Readers ...



Half the greatness of asset allocation ETFs is that they're a cheap, easily accessible and effective way to invest.

2 weeks ago

\*Source: NBF Research Jun 4, 2024



## **Benefits**

- ✓ Simplified Investing
- ✓ Broad diversification
- Professionally constructed
- ✓ Automatic Rebalancing
- ✓ Transparency
- ✓ Liquid
- ✓ Lower cost
- ✓ All-in-one cost structure



Liquidity: The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Cash is considered to be the most liquid asset, while things like fine art or rare books would be relatively illiquid.



### Diversification

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Highest Return	US 23.9%	US 21.6%	CE 21.1%	EM 28.7%	US 4.2%	US 24.8%	EM 16.6%	US 27.6%	CA 1.8%	US 22.9%
$\uparrow$	BP 11.6%	IE 19.5%	US 8.1%	EE 17.9%	GB 1.9%	CE 22.9%	US 16.3%	CE 25.1%	CE -5.8%	EE 17.4%
	CE 10.6%	EE 17.1%	EM 7.7%	IE 17.4%	CB 1.4%	EE 18.3%	BP 10.4%	EE 16.0%	IE -7.8%	IE 15.7%
	GB 9.4%	BP 7.6%	BP 6.6%	US 13.8%	CA 1.4%	IE 16.5%	CB 8.7%	BP 12.0%	EE -8.3%	BP 13.4%
	CB 8.8%	CB 3.5%	GB 3.5%	CE 9.1%	BP -1.2%	BP 16.1%	IE 6.4%	IE 10.8%	BP -10.4%	CE 11.8%
	EM 7.0%	EM 2.4%	CB 1.7%	BP 8.8%	IE -5.6%	EM 12.9%	GB 6.0%	CA 0.2%	CB -11.7%	EM 7.3%
	IE 4.1%	GB 1.9%	CA 0.5%	CB 2.5%	EM -6.5%	CB 6.9%	CE 5.6%	GB -2.3%	US -12.2%	CB 6.7%
	EE 2.8%	CA 0.6%	IE -2.0%	GB 1.8%	EE -6.6%	GB 6.9%	EE 4.1%	CB -2.5%	GB -13.2%	GB 5.6%
Lowest Return	CA 0.9%	CE -8.3%	EE -3.2%	CA 0.6%	CE -8.9%	CA 1.6%	CA 0.9%	EM -3.1%	EM -13.9%	CA 4.7%

Source: Morningstar Direct. All returns in C\$ and are calendar year returns to December 31, 2023.

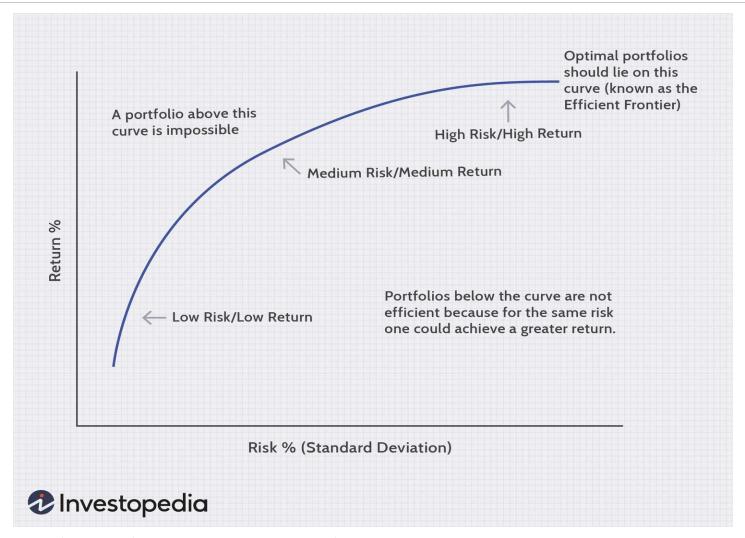
- IE International Equities

  MSCI EAFE Index
- US U.S. Equities
  S&P 500 Total Return Index
- **CE Canadian Equities** S&P/TSX Composite Index
- **CB Canadian Bonds**FTSE TMX Canada Universe Bond Index
- TSE TMX Canada 91 Day T-Bill Index
- **GB Global Bonds**Citi World Government Bond
- EE European Equities
  MSCI Europe Total Return Index
- EM Emerging Market Equities MSCI Emerging Markets Total Return Index
- BP Balanced Portfolio 40% FTSE TMX Canada Universe Bond Index 40% MSCI World Index 20% S&P/TSX Composite Total Return Index

It's not about timing the market; it's about time in the market that pays off in the long run.

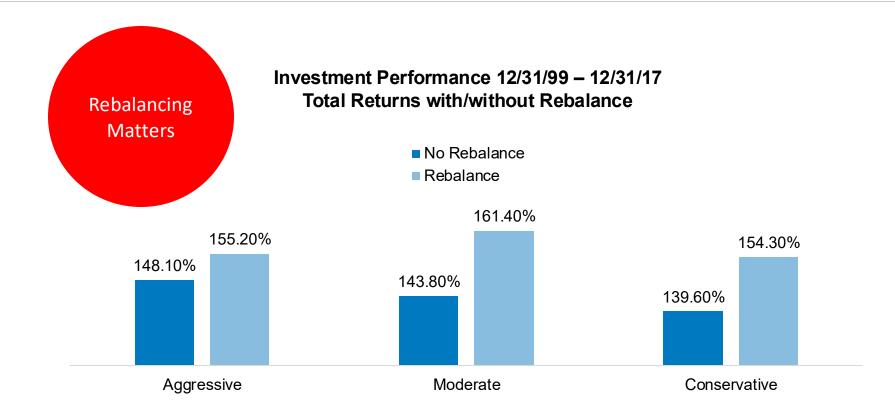


## Modern Portfolio Theory



Standard Deviation: A measure of risk in terms of the volatility of returns. It represents the historical level of volatility in returns over set periods. A lower standard deviation means the returns have historically been less volatile and viceversa. Historical volatility may not be indicative of future volatility.

## Rebalancing



<sup>1</sup>Boosting Returns With Rebalancing, Allan Roth and etf.com, 2018 – For illustrative purposes only



## Overcoming Emotional Biases in Investing

## **Home Country Bias**



**Emotional Biases** 



**Recency Bias** 



**How AA ETFs help overcome** 



## **Passive Investing**

#### Percentage of funds that underperformed their benchmark (Dec 31 2024)

Fund Category	Comparison Index	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
Canadian Equity	S&P/TSX Composite	88.73	89.87	92.54	95.51
U.S. Equity	S&P 500 (CAD)	85.00	96.69	94.56	95.56

Report 2: Performance Persistence of Domestic Equity Funds over Five Consecutive 12-Month Periods

	Fund Count at Start	Percentage Remaining in Top Quartile				
Fund Category	(December 2019)	December 2020	December 2021	December 2022	December 2023	
Top Quartile						
Canadian Equity	16	50.00	6.25	0.00	0.00	
Canadian Focused Equity	17	58.82	11.76	0.00	0.00	
Canadian Dividend & Income Equity	15	13.33	0.00	0.00	0.00	
Canadian Small-/Mid-Cap Equity	8	50.00	25.00	0.00	0.00	
Global Equity	58	56.90	13.79	0.00	0.00	
International Equity	15	53.33	20.00	0.00	0.00	
U.S. Equity	33	54.55	15.15	0.00	0.00	



Source: S&PDJI SPIVA SPIVA | S&P Dow Jones Indices

## Paying Less Fees Adds Up



For illustrative purposes only

#### Assumptions for charts above:

- · Two hypothetical portfolios with an initial investment of \$100,000 each
- · Annual rate of return is 6% with no distributions
- Goal of reaching \$500,000 in 30 years



For illustrative purposes only

- · Portfolio A pays 0.5% less in fees each year
- Assumes withdrawal of \$40,000 per year beginning year 31

This chart is for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual. Particular investments and/or trading strategies should be evaluated relative to each individual's circumstances. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment.

## Putting Into Practice: Potential Use Cases

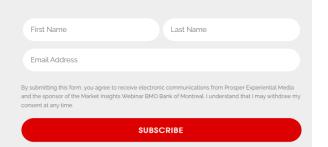
- Strategic Portfolio Core Exposure
- Core & Satellite Approach
- Retirement Solution
  - Withdrawal plan T Series
  - Nest Egg

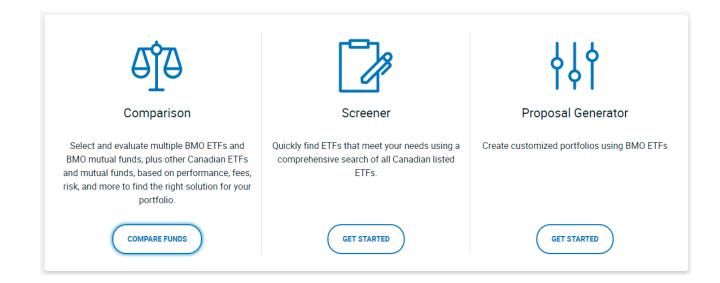
## Resources to help you: www.etfmarketinsights.com



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