2021 the Big Picture®

Conversation Guide

for Financial Professionals

How to use the Big Picture® chart to **grow** assets under management and **keep** clients invested

Why use the Big Picture chart?

Financial advisors today face a challenging investing public. Some clients are too focused on the near past. Some insist on trying to time the market. Others are new to investing, and would benefit from an illustrated introduction to its main principles.

Through its smart design and 86-year breadth, the Big Picture chart can help you convincingly address each of these audiences.

How to use the Big Picture chart:

Top Five Conversation Topics

1 Risk, return, and diversification

U.S. Stocks

The chart shows that U.S. stocks have outperformed every other asset class shown, compounding at 11.6 percent annually from 1935 through 2020. Behind this spectacular return, however, has been an equally important element of risk (as measured by volatility). This is expressed numerically in the chart's summary table, and visually in the variability of the plotted line for this asset class.

> U.S. stocks have outperformed every other asset class shown.

Domestic stocks

Canadian stocks have delivered a relatively strong 9.5 percent compound annual return since 1935. While Canadian equities lagged U.S. equities over this period, they carried comparable risk.

International

International equities have delivered a long-term annual return of 8.2 percent — 1.3 percentage points lower than their Canadian counterparts. But there have been extended periods when international stocks have outperformed other major asset classes — as, for example, in the 1950s, 1970s, and 1980s. Foreign equities have historically been riskier than both U.S. and domestic equities, in part due to currency fluctuations.

Bonds and T-Bills

On average, Canadian government bonds have compounded at a relatively unhurried 6.1 percent per year. But bonds have been less than half as volatile as domestic stocks, with an all-bond portfolio experiencing relatively limited dips in value. T-Bills, meanwhile, have delivered a 4.3 percent annualized return. While T-Bills have delivered the lowest return of major asset classes, they have been the least volatile.

Balanced, income & growth

A hypothetical balanced portfolio consisting of 50 percent bonds, 16 percent Canadian stocks, 18 percent U.S. stocks, and 16 percent international stocks has landed in the middle of the risk-return spectrum. The portfolio's returns have averaged a respectable 8.5 percent, at half the risk of domestic equities. And when domestic stocks have fallen, the balanced portfolio has always fallen less.

> When domestic stocks have fallen, the balanced portfolio has always fallen less.

A hypothetical income-oriented portfolio, heavily weighted toward fixed income investments, has offered a relatively conservative risk-return profile. A growth-oriented portfolio, heavily weighted in equities, has delivered a higher long-term return — but at higher risk.

2 Inflation: A constant risk

As the Big Picture chart shows, one dollar today is worth just one nineteenth what it was in 1935. Investors need protection from inflation, and the best asset class for the job has historically been stocks. Over the past 86 years, domestic equities have cumulatively outgrown inflation by a factor of 133.

Some of today's volatility-averse investors have flocked to the relative safety of T-Bills and other low-risk instruments. But a glance at the Big Picture chart shows that T-Bills have barely outpaced inflation. Use the chart to explain that peace of mind may come at the price of long-term purchasing power.

> "Since 1935, domestic equities have outgrown inflation by a factor of 133.

3 The importance of staying invested

As the Big Picture chart shows, $1,000 invested in Canadian stocks in 1935 had grown to $2,527,869 by year-end 2020, while the same amount invested in U.S. stocks had grown to $12,237,445. How could anyone have lost money over this period? Plenty of folks did, by "dancing in and out of the market", to quote Warren Buffett.

Flighty investor behaviour is damaging to returns — and to your business. Use the Big Picture chart to launch a two-pronged argument against such impulses. First, remind market-timing clients that the future cannot be reliably foretold, no matter how authoritative the foreteller. Note the following captions in the Big Picture chart: One, which quotes Alan Greenspan as "unqualifiedly bullish" in 1973, just prior to a massive market crash, and another, which marks the 1979 publication of *Business Week's* "Death of Equities" issue, right before the market's greatest bull run ever.

> "Canadian equities have routinely rallied — sometimes dramatically — before a recession has ended.

Second, point out that stocks have surged when people have least expected them to, leaving behind those on the sidelines. Use the chart to show that Canadian equities have routinely rallied — sometimes dramatically — before a recession has ended.

> "Buying and holding the balanced portfolio over any 5-year period has produced a positive return 100% of the time.

The Time and Risk chart, which shows that the longer the holding period, the lower the historical likelihood of loss, also speaks to the importance of staying invested. For example, the chart shows that a $100 investment in the balanced portfolio made at the beginning of the worst 1-year period would have delivered an annual return of negative 21 percent. The same investment made at the beginning of the worst 5-year period would have delivered a slightly *positive* return.

An investor holding the balanced portfolio for just one year has made money 86 percent of the time since 1935. Buying and holding the balanced portfolio for any 5-year period has produced a positive return 100 percent of the time.

And here's perhaps the most powerful argument for staying the course: Over the past 86 years, an initial investment in Canadian stocks has grown 2,528-fold despite multiple wars, 15 recessions, periods of rampant inflation, double-digit interest rates, and several world crises.

Continued on reverse

4 Downturns and recoveries

The "Bull and Bear Markets in Canadian Stocks" graph shows that Canadian stocks have experienced eleven declines of over 20 percent in the past 86 years. Some declines, like those in the late 1930s and early 2000s, were relatively prolonged. At other times, the market promptly recovered and went on to reach new highs. Use this graph to illustrate, a) The risk of significant periodic downturns and, b) The temporary nature of historical market declines.

Exchange rates impact risk and return

Canadian investors who invest abroad are placing a bet not only on the intrinsic performance of foreign securities, but on the rate of exchange between the Canadian dollar and the currencies in which their investments are denominated.

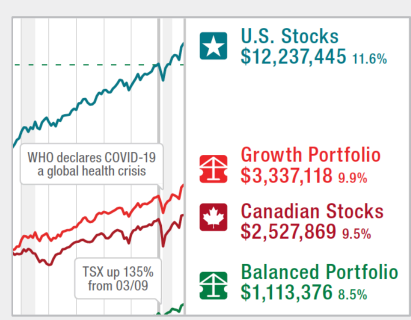
For example, if the Canadian dollar weakens against the U.S. dollar, an investor who holds U.S. stocks will see the value of his investment rise in Canadian-dollar terms, as fewer U.S. dollars will be required to purchase the same number of Canadian dollars.

Of course, the inverse will occur if the Canadian dollar strengthens. In this way, exchange rate fluctuations can amplify and dampen investment risk, and boost or diminish returns.

The Big Picture's Canadian-to-U.S. dollar mountain chart shows that the strength of the loonie relative to the greenback has fluctuated significantly — with concurrent effects for Canadian investors who have invested in the United States.

Other conversations

In addition to the topics above, the Big Picture chart is appropriate for discussions about trends in oil, gold, and real estate. The chart also displays interest and inflation rates, and key historical events.



This chart shows the inferred growth of one thousand dollars invested on January 1, 1935. This chart is for illustrative purposes only; it does not constitute investment advice and must not be relied on as such. Assumes reinvestment of all income and no transaction costs or taxes.

The portfolios shown are neither real, nor recommended. They were rebalanced each January. Risk is measured by the standard deviation (volatility) of annual returns. All returns are compound annual returns unless otherwise indicated. All values are expressed in Canadian dollar terms, except oil and gold prices, which are in U.S. dollars.

Sources: U.S. Stocks: S&P 500 Total Return index—Center for Research in Security Prices (CRSP). International Stocks: ex-U.S.A. Total Return Index, Bonds: Canada 10-year Total Return Government Bond Index, Canadian Stocks: S&P/TSX Composite Total Return Index, T-Bills: 3-Month Treasury Bill Total Return Index, gold prices, exchange rates—Global Financial Data, Inc. Inflation: Consumer Price Index, Recessions—Statistics Canada. Prime Interest Rate—Bank of Canada. House Price Index: 1985-2020—Statistics Canada; all other years—U.S. Case/Shiller index used as proxy for trends in Canadian market.

The reproduction of part or all of this publication without prior written consent from Investments Illustrated, Inc. is prohibited. The Big Picture, and the Investments Illustrated name and logo, are registered trademarks. **Past performance is not an indicator of future performance.**
© 2021 Investments Illustrated, Inc. All Rights Reserved.

BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc., BMO Investments Inc., BMO Asset Management Corp., BMO Asset Management Limited and BMO's specialized investment management firms. ®/™Registered trade-marks/trade-mark of Bank of Montreal, used under licence.