Sigma Balanced Portfolio

The reliability of rebalancing

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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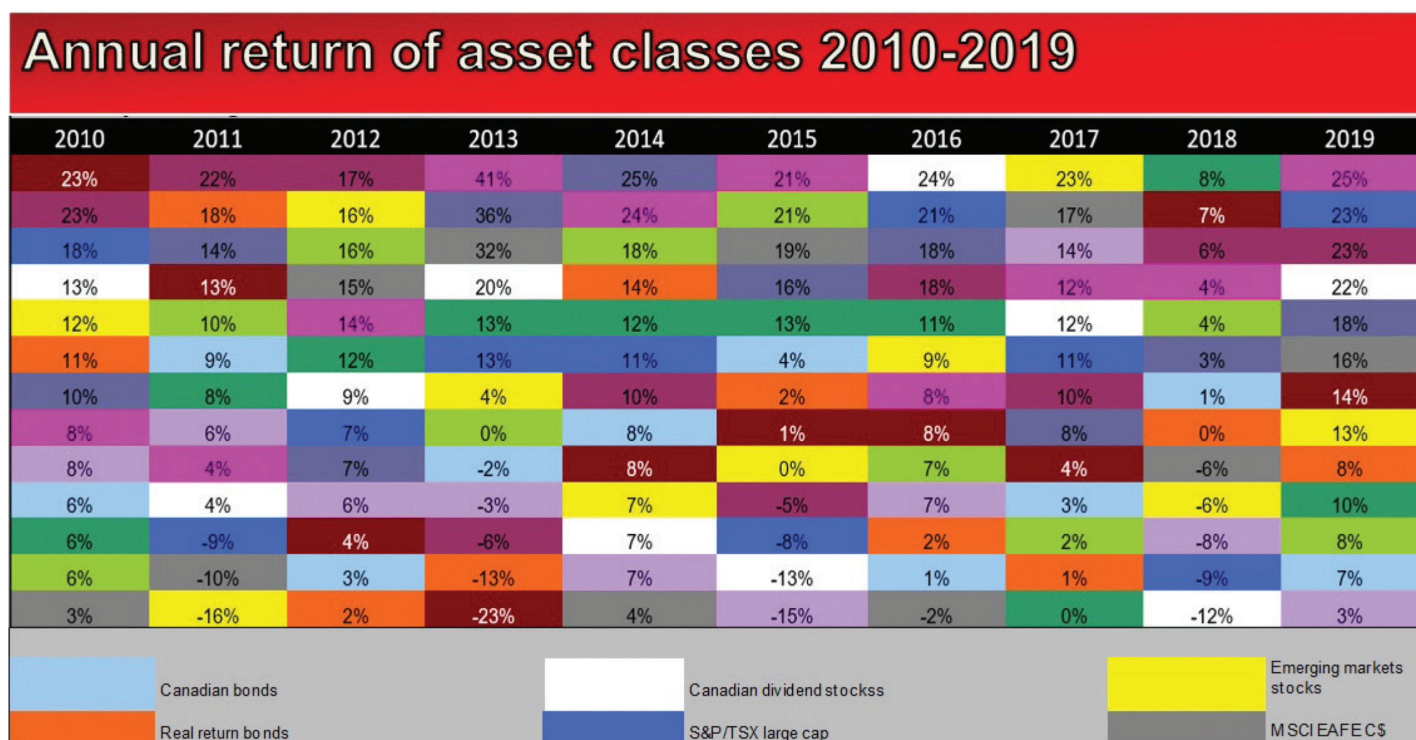
LALONDE-BEAUCAGE *GROUP*

Multiple asset class portfolio management

Management of our Sigma balanced portfolio aims to maximize the benefits of diversification and rebalancing between asset classes. The portfolio holds at all times a large number of asset classes that do not behave in the same way at the same time, thus offering greater stability. As markets move and advance, portfolio positions are rebalanced to maintain the target weight of each market.

Markets have always been volatile and unpredictable. Very clever is the one who can predict the future markets' performance. As shown in the table below, the performance of different asset classes varies greatly from year to year, in an unpredictable manner. Asset classes that outperform for a certain period sooner or later experience a period of underperformance, just as an asset class that underperforms will eventually have its period of outperformance. In addition, there are significant differences between the best and worst asset class for a given year. For example, for the year 2010, gold companies posted a yield of 29% while US dividend stocks remained at a yield of only 3%, a gap of 26%. These gaps are rarely below 25%. We can also see that an asset class that performs strongly one year is not immune to underperformance in subsequent years, hence the importance of diversification. Diversification allows us to capture returns, regardless of where it comes from, and reduce the volatility of a portfolio.

Volatile and unpredictable markets



Annual return of asset classes 2010-2019

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
23%	22%	17%	41%	25%	21%	24%	23%	8%	25%
23%	18%	16%	36%	24%	21%	21%	17%	7%	23%
18%	14%	16%	32%	18%	19%	18%	14%	6%	23%
13%	13%	15%	20%	14%	16%	18%	12%	4%	22%
12%	10%	14%	13%	12%	13%	11%	12%	4%	18%
11%	9%	12%	13%	11%	4%	9%	11%	3%	16%
10%	8%	9%	4%	10%	2%	8%	10%	1%	14%
8%	6%	7%	0%	8%	1%	8%	8%	0%	13%
8%	4%	7%	-2%	8%	0%	7%	4%	-6%	8%
6%	4%	6%	-3%	7%	-5%	7%	3%	-6%	10%
6%	-9%	4%	-6%	7%	-8%	2%	2%	-8%	8%
6%	-10%	3%	-13%	7%	-13%	1%	1%	-9%	7%
3%	-16%	2%	-23%	4%	-15%	-2%	0%	-12%	3%

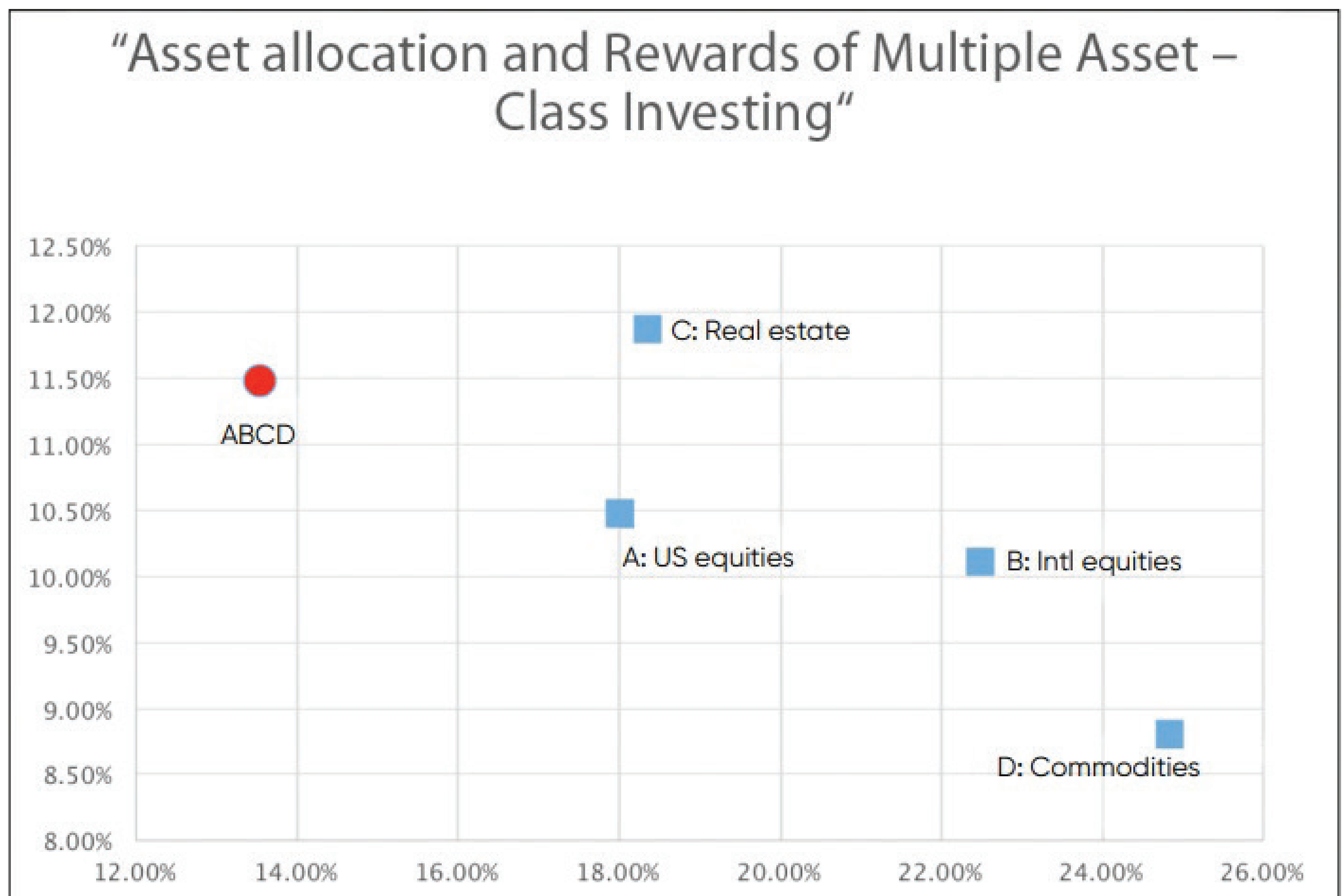
Source: Bloomberg

Reversion to the mean and rebalancing

As volatile and unpredictable as market might be, mean reversion is and always will be inevitable. Asset classes that have strongly outperformed will sooner or later exhaust themselves. By the same token, asset classes that have lagged will inevitably take the lead at some point. A systematic rebalancing approach gives us the opportunity to sell into strength and buy into weakness. This contributes to an increased reliability of future returns and better risk management.

The study below shows the annual rate of return (vertical axis) and volatility (horizontal axis) for four well known asset classes over a long period. We notice that taken individually, all four have considerable volatility. However, once combined and rebalanced, we have a portfolio whose volatility is much lower while its expected return is not decreased, but in fact increased.

Two things invariably happen when applying these principles to a wide variety of asset classes with low correlations. Firstly, volatility of the resulting portfolio will always be lower than the average of the constituents' volatilities. Secondly, return of the resulting portfolio will always be higher than the average of the constituents' returns.



Source: Roger Gibson 1972-2013

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Ideal investor and investment horizon

Sigma balanced is ideal for an investor seeking a higher level of reliability of long term returns while keeping volatility to a minimum.

Our Sigma portfolios

Sigma Income portfolio,

Sigma Balanced portfolio,

Sigma Asset class rotation portfolio,

Sigma moderate Asset class rotation portfolio.

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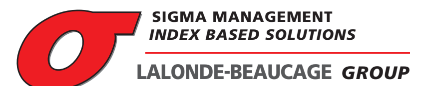

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