A Word on Portfolio Performance and Benchmarks

Comparing portfolio returns to a benchmark can be a helpful exercise for monitoring the efficacy of an investment style. It is imperative, however, that an appropriate benchmark be referenced.

<u>Often investors erroneously compare their personal returns with individual stocks or a broadly referenced equity index like the S&P 500 or the TSX 60, when in fact, only a limited portion of their savings should be allocated to the capital risk and volatility of stocks or corporate debt.</u> For example, if one were to hold 100% of one's savings in a basket of stocks and corporate bonds, <u>the portfolio may track risk markets higher but also plunge when they fall.</u>

A large exposure to violent capital swings is generally undesirable and dangerous to financial and emotional health—especially the older we become, as there is less lifetime left to make back losses. It is also perilous during extreme asset valuation periods where dividend yields are meagre and capital loss prospects higher than average.

The most common approach to smoothing capital volatility is to reduce or limit equity market exposure and concentrate savings in government bonds, guaranteed deposit notes and other investment quality fixed income holdings (that do not typically increase or fall with stock markets) while holding a smaller portion, in corporate equity and debt assets that do. This type of balanced asset allocation, 'long always' approach, is designed to gain less than stock indices in up years (because only a portion of the capital is participating in rising risky markets). The approach is also expected to fall less than the overall market in down years (because only a portion of the capital is participating in capital losses).

<u>An alternate investment method is an 'absolute return' approach where one does not design portfolios to track the ups and downs of risk markets but rather to protect capital from losses and garner positive compound returns through complete investment cycles</u>. This 'absolute return' approach is designed to be a very different experience than the conventional long always method <u>and is the approach we follow at Venable Park.</u>

An Absolute Return Benchmark tracks the available savings deposit rate each year, plus an additional return percent on top of that reference rate. <u>At Venable Park, our Absolute Return Benchmark target is to beat the 3-month Canadian Deposit Offer Rate (CDOR) annually (net of fees), whether stock markets win or lose.</u>

To give a sense of how our results have compared to date with the Absolute Return Benchmark, as well as a Long Always Benchmark (for those who are curious how our approach has compared with conventional methods in terms of volatility and returns), we chart VPIC's $1m+ 60/40 account returns (net of fees) as compared with the Long Always (gross of fees, in red) and the Absolute Return Benchmark (blue). All numbers are updated annually on our Venable Park website, under the 'About' tab.

If you have questions or would like to discuss this further, please let us know.

Venable Park Investment Counsel Inc.

www.venablepark.com