



# Pursuing a Better Investment Experience



**RACINE INVESTMENTS**

# 1 Embrace Market Pricing

The market is an effective information-processing machine. Each day, the world equity markets process billions of dollars in trades between buyers and sellers—and the real-time information they bring helps set prices.



# 2 Don't Try to Outguess the Market

The market's pricing power works against mutual fund managers who try to outperform through stock picking or market timing. As evidence, only 22% of US-based equity mutual funds and 10% of fixed income funds have survived and outperformed their benchmarks over the past 20 years.

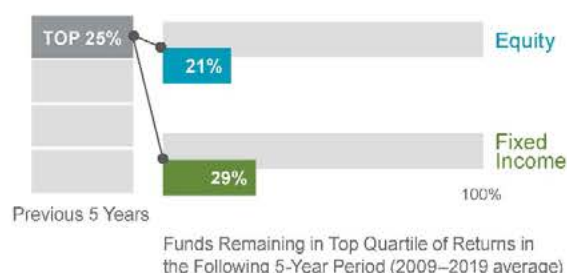
US-Based Mutual Fund Performance, 2000–2019



# 3 Resist Chasing Past Performance

Some investors select mutual funds based on their past returns. Yet, past performance offers little insight into a fund's future returns. For example, most funds in the top quartile of previous five-year returns did not maintain a top-quartile ranking in the following five years.

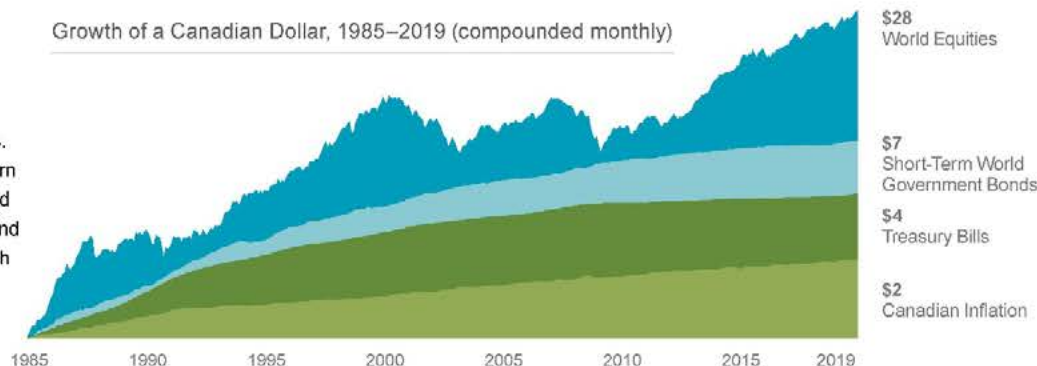
Percentage of Top-Ranked Funds That Stayed on Top



# 4 Let Markets Work for You

The financial markets have rewarded long-term investors. People expect a positive return on the capital they supply, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation.

Growth of a Canadian Dollar, 1985–2019 (compounded monthly)



# 5 Consider the Drivers of Returns

There is a wealth of academic research into what drives returns. Expected returns depend on current market prices and expected future cash flows. Investors can use this information to pursue higher expected returns in their portfolios.

Dimensions of Expected Returns

## Equities

- **Company Size** (Market Capitalization)
- **Relative Price** (Price/Book Equity)
- **Profitability** (Operating Profits/Book Equity)

## Fixed Income

- **Term** (Sensitivity to Interest Rates)
- **Credit** (Credit Quality of Issuer)
- **Currency** (Currency of Issuance)

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## Practice Smart Diversification

Holding securities across many market segments can help manage overall risk. But diversifying within your home market may not be enough. Global diversification can broaden your investment universe.

### Model Canadian Equity Index Portfolio

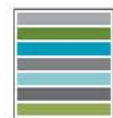


**S&P/TSX Composite Index  
1991–2019**

Annualized Return (%) 8.54

Annualized Standard Deviation (%) 13.67

### Model Global Diversified Equity Index Portfolio



**Globally Diversified Portfolio  
1991–2019**

Annualized Return (%) 9.81

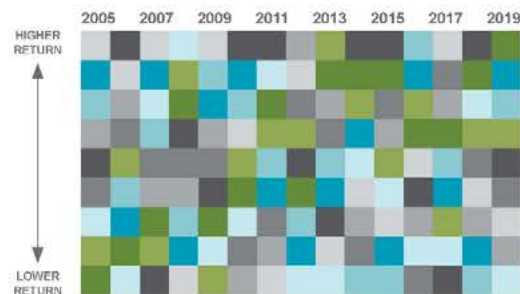
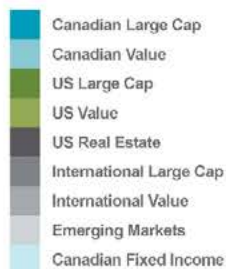
Annualized Standard Deviation (%) 11.12

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## Avoid Market Timing

You never know which market segments will outperform from year to year. By holding a globally diversified portfolio, investors are well positioned to seek returns wherever they occur.

### Annual Returns by Market Index



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## Manage Your Emotions

Many people struggle to separate their emotions from investing. Markets go up and down. Reacting to current market conditions may lead to making poor investment decisions.

### Avoid Reactive Investing



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## Look Beyond the Headlines

Daily market news and commentary can challenge your investment discipline. Some messages stir anxiety about the future, while others tempt you to chase the latest investment fad. When headlines unsettle you, consider the source and maintain a long-term perspective.

RETIRE RICH

SELL STOCKS NOW

THE LOOMING RECESSION

THE TOP 10 FUNDS TO OWN

MARKET HITS RECORD HIGH

HOUSING MARKET BOOM

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## Focus on What You Can Control

A financial advisor can offer expertise and guidance to help you focus on actions that add value. This can lead to a better investment experience.

- Create an investment plan to fit your needs and risk tolerance.
- Structure a portfolio along the dimensions of expected returns.
- Diversify globally.
- Manage expenses, turnover, and taxes.
- Stay disciplined through market dips and swings.



## DISCLOSURES

**Exhibit 1:** In CAD. Source: Dimensional, using data from Bloomberg LP. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded. Daily averages were computed by calculating the trading volume of each stock daily as the closing price multiplied by shares traded that day. All such trading volume is summed up and divided by 252 as an approximate number of annual trading days.

**Exhibit 2:** The sample includes funds at the beginning of the 20-year period ending December 31, 2019. Each fund is evaluated relative to its respective primary prospectus benchmark as of the end of the evaluation period. Surviving funds are those with return observations for every month of the evaluation period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective primary prospectus benchmark. Loser funds are funds that did not survive the period or whose cumulative net return did not exceed that of their respective primary prospectus benchmark. Where the full series of primary prospectus benchmark returns is unavailable, non-Dimensional funds are instead evaluated relative to the Morningstar category index assigned to the fund's category at the start of the evaluation period.

**Exhibit 3:** This study evaluated fund performance persistence over rolling periods from 2000 through 2019. Each year, funds are sorted within their category based on their previous five-year total return. Those ranked in the top quartile of returns are evaluated over the following five-year period. The chart shows the average percentage of top-ranked equity and fixed income funds that kept their top ranking in the subsequent period.

**Source (Exhibits 2 and 3):** US-domiciled, USD-denominated, non-Dimensional open-end mutual fund data is provided by Morningstar. Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, World Large Stock, and World Small/Mid Stock. Fixed income fund sample includes the Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Core Bond, Intermediate Core-Plus Bond, Intermediate Government, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Muni Target Maturity, Short Government, Short-Term Bond, Target Maturity, Ultrashort Bond, World Bond, and World Bond-USD Hedged. See Dimensional's *Mutual Fund Landscape 2020* for more detail. Index data provided by Bloomberg Barclays, MSCI, Russell, FTSE Fixed Income LLC, and S&P Dow Jones Indices LLC. Bloomberg Barclays data provided by Bloomberg. MSCI data © MSCI 2020, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2020 FTSE Fixed Income LLC. All rights reserved. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

**Exhibit 4:** In CAD. World Equities is the MSCI World Index (gross dividends). Short-Term World Government Bonds is the FTSE World Government Bond Index 1–5 Years (Hedged to CAD). Treasury Bills is the FTSE Canada 30-Day Treasury Bill Index. Canadian Inflation is measured as changes in the Canadian Consumer Price Index. MSCI data © MSCI 2020, all rights reserved. FTSE fixed income indices © 2020 by FTSE Fixed Income LLC. All rights reserved. Treasury Bills data provided by PC-Bond, a business unit of FTSE Global Debt Capital Markets Inc. All rights reserved. Canadian Inflation data is provided by the Bank of Canada.

**Exhibit 5:** Relative price is measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book.

**Exhibit 6:** In CAD. Globally diversified portfolio is equally weighted with the following asset groups: Canadian (Large, Small, and Value); US (Large, Small, and Value); US Real Estate; and International (Large and Mid, Small, and Value). Annualized standard deviation is calculated by multiplying the standard deviation of monthly returns by the square root of 12. Date range selected for the model portfolios is the longest common time series of whole years of data available. Rebalanced quarterly. Index descriptions: Canadian Large Cap is the S&P/TSX Composite Index. Canadian Small Cap is the MSCI Canada Small Cap Index (MSCI/Barra, gross dividends), January 1999–present, and Barra Canada Small Cap Index, December 1998 and before. Canadian Value is the MSCI Canada Value Index (gross dividends). US Large Cap is the S&P 500 Index. US Small Cap is the CRSP 6–10 Index. US Value is the Russell 3000 Value Index. US Real Estate is the Dow Jones US Select REIT Index. International Large and Mid Cap is the MSCI EAFE Index (net dividends). International Small Cap is Dimensional International Small Cap Index. International Value is the MSCI EAFE Value Index (net dividends). S&P/TSX data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2020, all rights reserved. Canadian Barra data provided by MSCI Barra. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. CRSP data provided by the Center for Research in Security Prices, University of Chicago. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dow Jones US Select data provided by Dow Jones Indices. Not to be construed as investment advice. Returns of model portfolios are based on backtested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. International investing involves special risks, such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.

**Exhibit 7:** In CAD. Canadian Large Cap is the S&P/TSX Composite Index. Canadian Value is the MSCI Canada IMI Value Index (gross dividends). US Large Cap is the S&P 500 Index. US Value is the Russell 3000 Value Index. US Real Estate is the Dow Jones US Select REIT Index. International Large Cap is the MSCI EAFE Large Cap Index (gross dividends). International Value is the MSCI EAFE IMI Value Index (gross dividends). Emerging Markets is the MSCI Emerging Markets Index (gross dividends). Canadian Fixed Income is the FTSE Canada Universe Bond Index. S&P/TSX data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2020, all rights reserved. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dow Jones US Select data provided by Dow Jones indices. FTSE data published with the permission of FTSE. Chart is for illustrative purposes only.

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