RBC Investment
UPDATE
July 2024 edition

Keeping an eye on the ball

Football is a sport that is always in season in Trinidad. This is especially the case during July and August when many vacation football camps emerge. Much like a football team, it takes different kinds of players in your investment portfolio to achieve your goals.

For example, you need strikers, midfielders, defenders, and a goalie to win a game. Similarly, to perform well in all market conditions, your investment portfolio will need a diversified mix of securities playing different roles.

Building a diversified investment team

Diversification is a fundamental principle of investing. It's the idea that you want to spread the risk in your portfolio across different types of investments. You don't want all parts of your portfolio working in the same direction all the time. You want your investments to form a well-balanced team.

When one of your 'players' is trapped in a corner, you want other team members to be an outlet to set up the next play. When your strikers lose control of the ball, you want your midfielders and defenders to take back control. And if there is a shot on your goal, you want your goalie to block it.

For investors, this means investing in a mix of different asset classes, wherein each asset class plays a different role depending on your investment needs and objectives – from the stability and income-generating potential of fixed income to the corporate earnings growth potential from equities around the globe.

Each of these asset classes can then be broken down further, based on features like geography, industry, size, style, and risk characteristics. The process of dividing your assets across these groupings is known as asset allocation. The result is a diversified investment portfolio that balances the risks of investing with the growth and income potential that aligns with the time you plan to invest, your investing preferences and your tolerance for risk.

In football, the General Manager recruits players to build a strong, cohesive team. In a similar way, a mutual fund portfolio manager incorporates various asset classes to build diversified portfolios that can help you reach your investment goals.

Three Main Elements of a Diversified Portfolio

Cash is your goalie: Goalies generally don't score goals. Their role is to prevent losses. Keep in mind that just as goalies sometimes let in a goal, keeping your money in cash can mean lost opportunities. Also, your money can grow slower than rising inflation, which can hurt your portfolio over time.

Fixed Income securities are your midfield and defense: Fixed income securities often offer good defense if stock markets falter or stumble. They can provide steady income and help to manage risks in a portfolio. Ideally, you would have a mix of bonds in your line-up.

Equities are your strikers: Equities tend to be the growth driver in a portfolio. But on the way to the goal line, they tend to fluctuate more in value, based on earnings, market expectations, changing economic conditions and other factors. Getting a good mix of equities can help even out the performance of your portfolio. Be prepared for some heart-pounding excitement when markets rise and fall quickly, but over time you may get some good shots at the net and hit some goals!

Key Takeaways:

- Diversifying your portfolio is an important way to balance out the risks in your portfolio with the potential rewards and prospective growth that come with long-term investing.
- Holding a diversified mix of asset classes means you don't need to pick and choose which asset classes might outperform in any one year.
- Different asset classes come with unique risks and return potential. Finding the right balance for you will depend on several factors, including your time horizon, tolerance for risk, and level of growth you hope to achieve.

Contact Us
If you would like more information about our investment products, please call RBC Royal Bank at 800-1RBC (1722) or West Indies Stockbrokers at 628-WISE (9473). We look forward to assisting you.