

Market timing or an asset allocation ETF?

Persistence among asset classes is fleeting, as shown in the chart below. Top-performing investments from one year often fall to the bottom of the rankings in subsequent years. That's why Vanguard cautions against chasing the performance of asset classes that are on a winning streak.

With their predefined weightings and regular rebalancing, Vanguard asset allocation ETFs help investors to overcome the temptation to time markets.

And because they offer exposure to a wide range of equity and fixed income markets, the funds can also provide a smoother return than you would get from owning individual asset classes.

You can see the benefits of a diversified portfolio in the chart: The annual returns of the balanced portfolio (60% equity/40% fixed income) tend to be more consistent over time, near the middle of the range of returns of various asset classes.

Annual returns (%) of major asset classes compared with a balanced portfolio (60% equity/40% fixed income)

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Asset class
20.1	12.1	57.2	17.4	10.0	27.0	41.3	25.1	21.6	21.6	22.4	Balanced portfolio 60% equity / 40% fixed income
10.2	7.1	37.6	13.8	9.6	16.7	29.6	23.9	21.5	10.8	18.2	Canadian equities
4.9	6.6	36.7	13.6	9.5	15.5	15.2	14.2	19.4	8.1	13.8	U.S. equities
4.5	5.7	20.0	10.7	6.3	15.4	15.1	11.9	19.4	7.9	9.4	Developed markets ex-North America equities
4.0	-9.8	15.0	9.3	5.2	15.3	13.1	11.3	14.9	6.8	8.6	Emerging markets equities
1.3	-16.3	14.0	9.1	4.6	13.4	9.1	9.9	7.2	6.5	7.5	Global real estate equities
-1.4	-19.5	13.3	7.9	-0.7	9.4	3.4	9.0	3.7	6.1	3.0	Commodities
-4.6	-21.2	7.4	7.0	-5.9	7.0	2.3	8.9	3.7	3.7	2.6	Canadian investment-grade fixed income
-10.5	-29.3	5.0	6.9	-10.1	6.5	0.6	8.6	3.7	1.4	2.4	Canadian government fixed income
-10.8	-34.3	3.6	6.1	-10.3	3.3	-1.6	7.6	1.6	1.0	1.1	Global fixed income (CAD-hedged)
-12.6	-36.1	1.0	5.0	-11.2	2.3	-2.3	3.5	-8.7	-0.3	0.1	Emerging markets fixed income
-19.1	-42.8	-1.6	3.0	-18.0	-3.2	-3.5	-9.5	-9.6	-2.1	-5.0	Global high-yield fixed income

Notes: All returns in CAD. This performance is hypothetical in nature and may not be representative of the actual performance of any portfolios that use ETFs that track indexes with shorter performance histories.

The 60/40 portfolio consists of the following: 60% equities—16.4% FTSE Canada All Cap Index and 43.6% FTSE Global All Cap Index; 40% fixed income—23.5% Bloomberg Barclays Canadian Issues 300MM Index and 16.5% Bloomberg Barclays Global Aggregate Index (CAD Hedged). Sub-asset-class returns are based on the following indexes: Canadian equities—FTSE Canada All Cap Index; U.S. equities—S&P 500 Index; developed markets ex-North America equities—FTSE Developed All Cap ex North America Index; emerging markets equities—FTSE Emerging Markets All Cap China A Inclusion Index; global real estate equities—FTSE EPRA NAREIT Global Index; commodities—Bloomberg Commodity Index; Canadian investment-grade fixed income—Bloomberg Barclays Canadian Issues 300MM Index; Canadian government fixed income—Bloomberg Barclays Global Canada Index; global fixed income—Bloomberg Barclays Global Aggregate Bond Index (CAD Hedged); emerging markets fixed income—Bloomberg Barclays Emerging Markets Aggregate Bond Index; and global high-yield fixed income—ICE BofAML Global High Yield Index.

Sources: Vanguard calculations using data from Bloomberg, Bloomberg Barclays, FTSE and ICEBofAML.

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