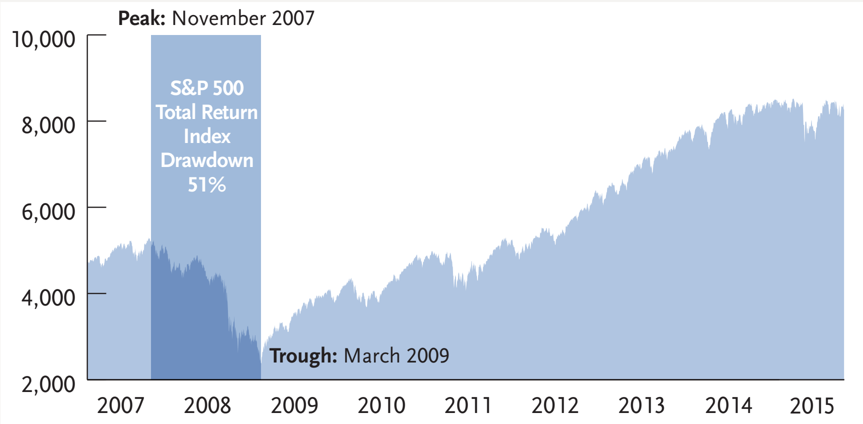
Investors can win by losing less

Most investors base their perception of risk on the fluctuating portfolio value on their monthly statements. When purchasing a fund, they may take into account historical relative performance but once they purchase, they think only in terms of their own gain or loss. For many, risk is really about, "how much can I lose in a short period of time?"

If you don't limit downside...

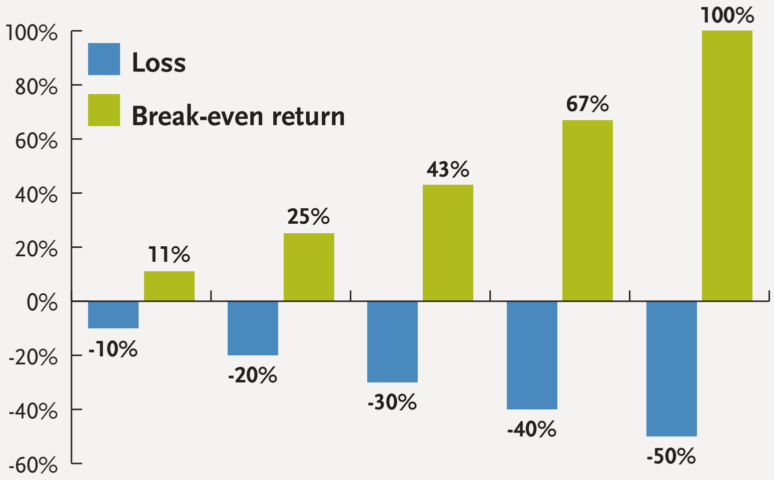
Universally, investors want their advisors to make them money – not lose it. Consequently, short-term declines – from peak to trough – trigger an emotional and subjective response.



Source: Morningstar Direct. Price Return start as of January 1, 2007 and Total Return results to December 31, 2015.

... the more you need to make up

Recovering from an extreme decline in portfolio value can take time and will require a significant market gain to break even. For example, if you lost 50% in the market, you would have to gain 100% to recover, which at a 9% annual return would take over eight years.



Source: AGF Investments Inc. Illustration is for example purposes only.

Today's markets require a new way of thinking

Traditionally, investment managers think in relative terms of outperforming their fund's benchmark. For investors, success is ultimately tied to avoiding losses. The goal of active management should be to reduce equity exposure in negative periods and participate in positive markets. One way to do this is to avoid riskier segments of the market when markets are increasingly volatile or trending downwards.

The benefit of avoiding losses

You may not realize that equity markets experience greater than 10% drops more frequently than 10%+ gains. This makes it even more important to focus on minimizing extreme losses than chasing extreme gains. Losing less can mean winning more.

Extreme losses exceed extreme market gains by 1.8x

	Extreme losses (-10% or worse)	Extreme gains (10% or better)
# Weeks	77	45
Maximum loss or gain	-33%	34%
Cumulative value	-1,106%	612%

Source: Morningstar Direct. Illustrates the weekly returns of the S&P 500 sectors for the 21-year period from January 1992 to December 2015. Identified on the chart are the extreme weeks, with an impact of 10% or more.

What to be in, and when, requires an active approach

An active strategy that determines which sectors to be in can help you participate in rising markets and minimize losses during bear markets. Even so-called safe segments of the market, like defensive sectors, may not always be the right option, as you can see from the chart below.

U.S. Sector leadership magnitude and highs vary

Sector (*Defensive sectors)	Pre 2013 High	Mar '09 Drawdown
Financials*	May '07	80% ↓
Consumer Staples*	Nov '07	50% ↓
Materials	May '08	58% ↓
Energy	Jun '08	30% ↓
Consumer Discretionary	May '07	56% ↓
Health Care*	May '07	37% ↓
Information Technology	Oct '07	51% ↓
Industrials	Sep '07	60% ↓
Utilities*	Dec '07	41% ↓
Telecommunications Services	May '07	46% ↓
S&P 500 Total Return Index	Nov '07	51% ↓

Source: Morningstar Direct. Period used for illustrative purposes: June 2003 to December 2015.

If you care about 'not losing money' as much as 'making money,' then call your financial advisor or visit AGF.com/RethinkRisk to find out more.

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