

A graphic featuring several white paper airplanes flying upwards from the bottom edge. One black paper airplane is highlighted in a green square box, with a dotted line trailing behind it, suggesting a path or trajectory. The background is a gradient of light to dark brown.

New age strategies for the old school portfolio

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At a glance

- Traditional asset allocations like the 60/40 portfolio have historically delivered attractive risk-adjusted returns for many investors. But these days, finding the right asset mix might not be as straightforward.
- Investors may want to consider additional diversification, through new investment options within their asset allocation to help drive returns higher during unpredictable times.
- TD Asset Management Inc. (TDAM) has a broad and extensive lineup of ETFs to help you construct a well-diversified portfolio in today's changing market and economic environment.

Many traditional asset allocation strategies hold a mix of stocks and bonds to help investors reach their financial goals. However, some investment industry professionals caution these traditional allocations may not be enough for some investors amid changing economic and market conditions. In this article we discuss why asset allocation can be vital to building an investment portfolio that can help investors reach their financial goals and take a deeper dive into what various asset classes and investments can bring to a portfolio.

Higher inflation requires higher returns

Investors are often told about the importance of creating an investment plan that they can stick to through the thick and thin of their investing journey. And a key piece of any plan is an investor's asset allocation — or the mix of investments they hold within their portfolio. Now, traditional asset allocations like the 60/40 portfolio (60% stocks and 40% bonds) have historically delivered attractive

risk-adjusted returns for many investors. But these days, finding the right asset mix might not be as straightforward. Inflation has been running hot and interest rates are at multi-decade highs. As a result, it may be more difficult for investors to earn the returns they need to reach their financial goals.

Simply put — higher inflation requires higher returns.

Old school portfolios

Consider that the historical success of the 60/40 portfolio and other traditional asset allocation strategies consisting of stocks and bonds alone were driven by a couple key factors:



Higher returns than expected from both stocks and bonds due in large part to falling interest rates over time and stable growth in the economy with relatively low volatility over the long term



The relatively low correlation between the performance of stocks and bonds, which led to high risk-adjusted returns

Although we feel stocks and bonds are still the bedrock of a diversified asset allocation strategy, we also believe market fundamentals have changed to some degree. For example, economic growth has been much more volatile in recent years and inflation has trended much higher than long-term historical averages. If these trends persist, we may experience several different market environments

and more variability in the returns of stocks and bonds. This may also necessitate more active and tactical management of a portfolio to help drive risk-adjusted returns. Therefore, investors may want to consider additional diversification through new investment options within their asset allocation to help drive returns higher during unpredictable times.

Diversified

Options for the “new” traditional portfolio

So, what are some examples of investments that can help bring additional diversification to an asset allocation strategy? **There are several different types of alternative investments to consider, including:**



Foreign currencies

Various currencies have higher or lower correlations to different parts of the business cycle which can help diversify a portfolio. For example, the Canadian dollar tends to be highly correlated to the business cycle because of the Canadian economy’s reliance on the commodities industry.

Options

Options are the right, but not the obligation to buy or sell an asset (typically a stock or ETF) at a particular price and time in the future. Their value is determined on an uncertain future, so investors effectively turn price volatility into an investible asset class.

Hybrids

These products are a blend of equity and fixed income that tend to offer a stable income yield and downside protection, but with some potential for upside risk. Two examples are convertible securities such as preferred shares and Special Purpose Acquisition Companies (SPACs).

Commodities

These are the raw materials used in the production of all sorts of products. Investors essentially speculate on the direction of a commodity’s price through investment vehicles such as futures contracts or investment funds.

Real estate and infrastructure

Commercial and industrial properties and infrastructure are fixed assets that offer a key service and may be present in desirable locations. Real estate tends to offer relatively stable income through rental agreements and may also offer exposure to economic trends such as urbanization or infrastructure upgrades. Infrastructure (e.g., roads, airports, utilities) can provide several strategic benefits to investors over a full market cycle including steady income generation, increased diversification and access to a growing market.

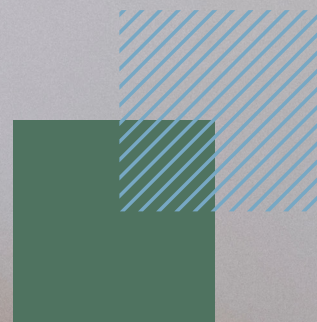
TDAM delivers on the options

TDAM has a broad and extensive lineup of ETFs, to help you construct a well-diversified portfolio in today's changing market and economic environment. For those that want to take a hands-off approach, consider asset allocation ETFs. A single ticket solution that can get you diversified exposure to stocks and bonds. For instance, **TD ETF Portfolios >** are all-in-one solutions designed for investors who are looking for a low-cost and efficient way to invest and lack the time or expertise to pick individual securities.

You can choose from three different options with differing allocations to equities and fixed income depending on your risk profile and investment horizon. For instance, a 30% equity and 70% fixed income allocation is considered more conservative, suitable for a short to mid-term horizon, while a 90% equity and 10% fixed income mix is more aggressive and suitable for a mid to long-term horizon. For those wanting to do it themselves, consider a “core and explore” strategy.

TD ETF Portfolios are all-in-one solutions designed for investors who are looking for a low-cost and efficient way to invest and lack the time or expertise to pick individual securities.

“Core and explore” is a method of portfolio construction where an investor buckets their investments into two groups, the core which typically consists of passive investments and explore which tends to consist of more active strategies. This gives an investor more control of how they invest and can increase the risk/return profile of a portfolio. Percentage allocations to each group will depend on the investor's tolerance for risk, investment horizon and market outlook. The core allocation is meant to provide stability and long-term growth, while the explore allocation aims to generate higher returns and enhance overall portfolio performance.





Core

TDAM offers a plethora of low cost, passively managed ETFs for portfolios with exposure to Canadian, U.S. or international markets. For the equity component, investors could utilize ETFs that track some of the major stock markets in the world, with exposure to some of the biggest companies and blue-chip names most people are familiar with. These types of ETFs will help provide the potential for growth as well as stability obtained through broad diversification. For the fixed income allocation, an investor can choose between investment grade government and corporate bond exposure that helps provide diversification and income to portfolios. **Some core options on the equity side from TDAM include:**

- [TD U.S. Equity Index ETF \(TPU\) >](#)
- [TD Canadian Equity Index ETF \(TTP\) >](#)
- [TD International Equity Index ETF \(TPE\) >](#)

For fixed income, investors can choose the [TD Canadian Aggregate Bond Index ETF \(TDB\) >](#) which provides broad exposure to high quality investment grade government and corporate debt.

Explore

Once the core is established, the more tactical investment options can be added. The main objective for the explore allocation is to generate returns above a benchmark and could reflect the investor's short-term expectations or views in certain sectors or geographies, like real estate, infrastructure, commodities and even fixed income. The explore portion of the portfolio typically contains investments that have lower correlations to traditional asset classes and sometimes higher volatility. **Some explore options from TDAM include:**

- [TD Active Global Infrastructure Equity ETF \(TINF\) >](#)
- [TD Active Global Real Estate Equity ETF \(TGRE\) >](#)
- [TD Global Carbon Credit Index ETF \(TCBN\) >](#)
- [TD Active Preferred Share ETF \(TPRF\) >](#)
- [TD Q U.S. Small-Mid-Cap Equity ETF \(TQSM\) >](#)
- [TD Global Technology Innovators Index ETF \(TECI\) >](#)
- [TD Select Short Term Corporate Bond Ladder ETF \(TCSB\) >](#)

The evolution of the traditional portfolio

The world has changed and so has the return outlook for major asset classes and the relationship between them. New techniques and asset classes have enabled an evolution in portfolio construction with new and innovative solutions that are better aligned with client goals and provide higher returns, with improved risk profiles. ■



To see what ETF options are available to you,
download our **ETF Product Guide >**,
available on our website **TD.com/etfs**.

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