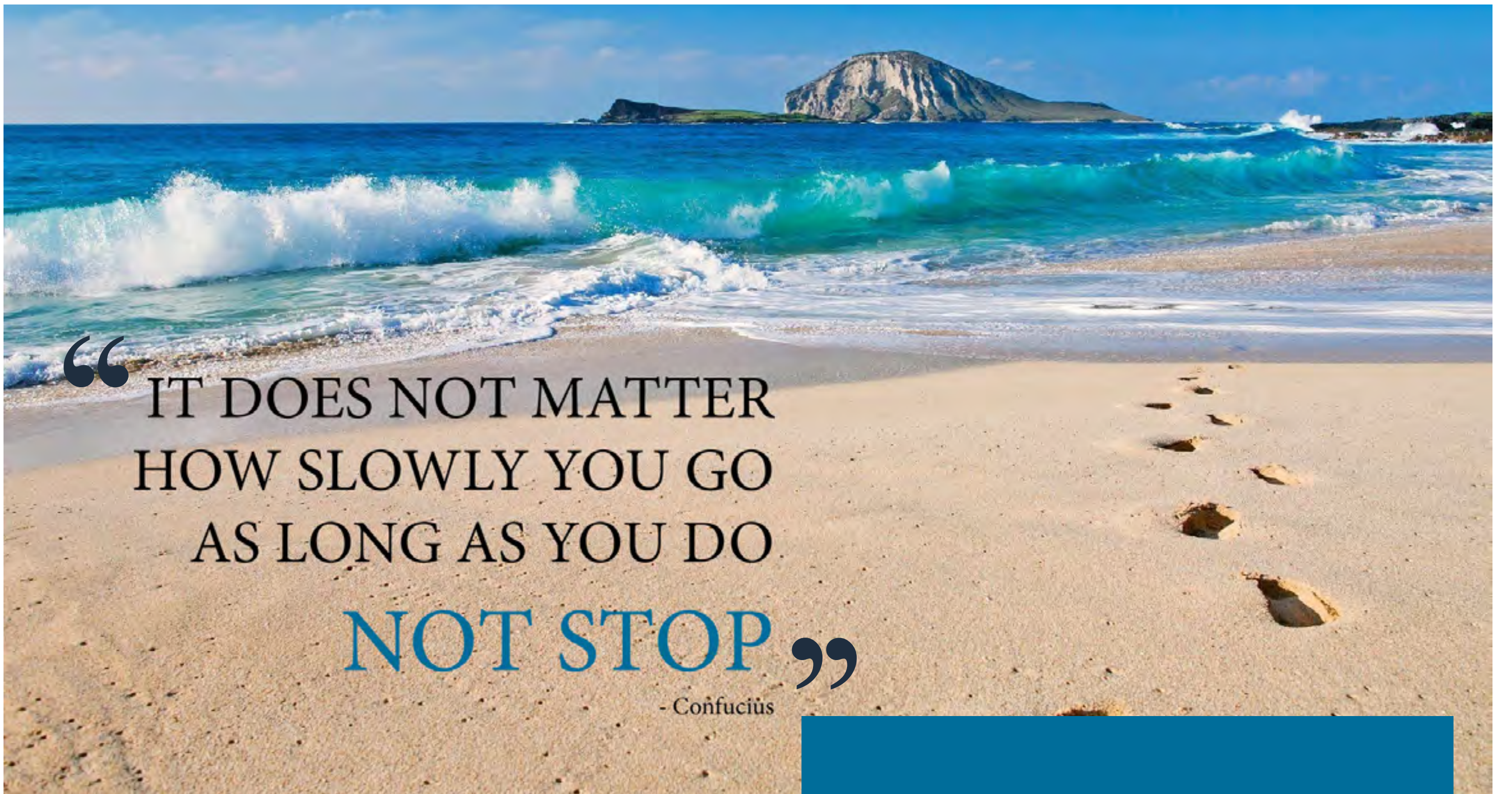

LOW VOLATILITY

Explained by:

LK Wealth Management Group

Invest in the market without worrying about the big waves.

How low risk investing, does not mean low returns.

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Inspiration

WARREN BUFFETT

When it comes to investment icons, none are larger than Warren Buffett. His patented stock strategy has helped him continually beat the market and become one of the wealthiest people on the planet.

CEO - Berkshire Hathaway

Started investing into companies directly in 1965 at the age of 31 and is now worth $66.4 billion. Making him the 3rd richest person in the world.

"Rule No. 1: Never Lose Money, Rule No. 2: Don't forget rule No. 1"

Our beliefs are synchronized with the most important rules from Warren Buffet's Rules of Investing:

"Rule No. 1: Never Lose Money,

Rule No. 2: Don't forget rule No. 1"

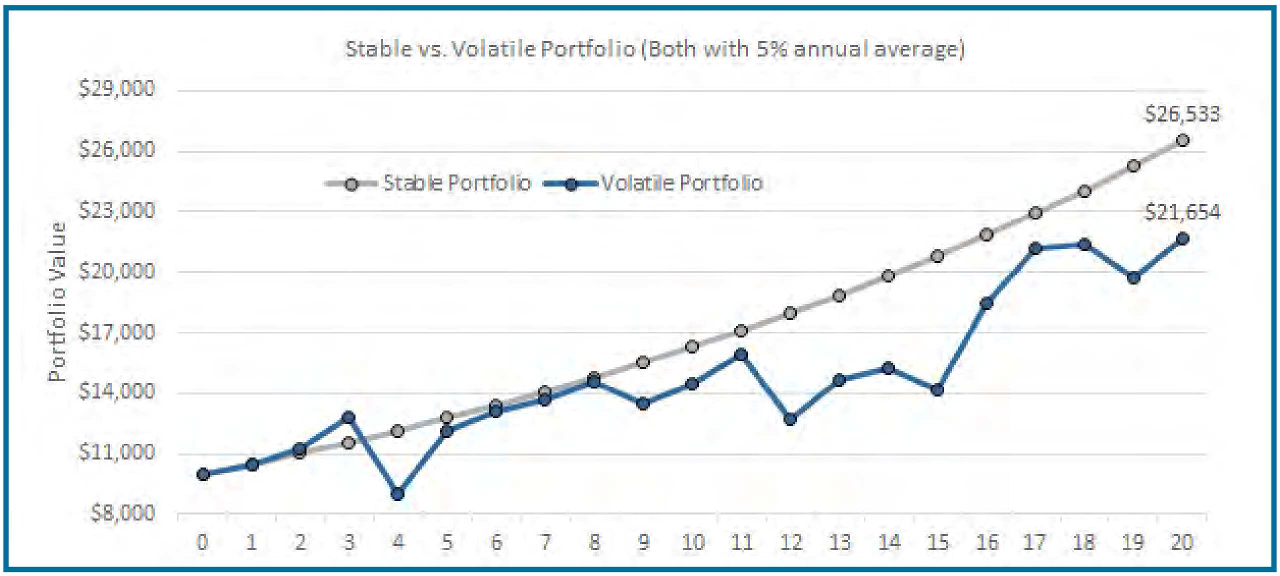
We believe, that the best possible way to provide growth in a portfolio is through consistent stable returns. By reducing the fluctuations in a client's portfolio we satisfy two main objectives:

1. Prevent significant losses from occuring
2. Participate in upward market movements

CONSISTENT VS. VOLATILE RETURNS

By embracing Mr. Buffet's two most important rules, it keeps us focused on reducing fluctuations inside the portfolio, which will ultimately lead to stronger absolute dollar returns and help us achieve our above objectives. Basic arithmetic will prove that achieving consistent returns versus a more volatile portfolio (the high risk/high reward theory) is more beneficial while making the journey more enjoyable for you the investor.

Below is an example of a $10,000 portfolio.



Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Average
Stable	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	**5.0%**
Value	$10,500	$11,025	$11,576	$12,155	$12,763	$13,401	$14,071	$14,775	$15,513	$16,289	$17,103	$17,959	$18,856	$19,799	$20,789	$21,829	$22,920	$24,066	$25,270	$26,533	
Volatile	5.0%	7.0%	14.0%	-30.0%	35.0%	8.0%	5.0%	6.0%	-7.0%	7.0%	10.0%	-20.0%	15.0%	4.0%	-7.0%	30.0%	15.0%	1.0%	-8.0%	10.0%	**5.0%**
Value	$10,500	$11,235	$12,808	$8,966	$12,103	$13,072	$13,725	$14,549	$13,530	$14,478	$15,925	$12,740	$14,651	$15,237	$14,171	$18,422	$21,185	$21,397	$19,685	$21,654	

When comparing the two portfolios with the same average return, the portfolio with more volatility will underperform the lower volatility portfolio. The only time the volatile portfolio would outperform was when the average return was large enough to overcome these fluctuations.

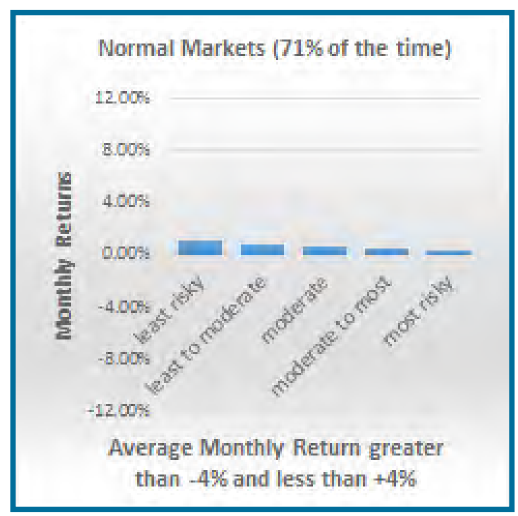
The reason behind this is that in order to recover from a 2% drop in one year, the return the following year would only need to be 2.04% to regain its value. If the same portfolio were to drop 50% in a year, it would require a 100% return to regain its value. Therefore, the larger the drop the greater the need for a stronger return.

Let us examine LOW VOLATILITY

Low volatilty investing is similar to a baseball player trying to hit singles and taking walks to get on base rather than swinging for the fences and striking out, thus improving the statistical probability of success.

Our strategy is to make consistent returns, through investing in companies that are less volatile than the market but that are still participating in the growth of the market. Through our research, we have found that less risky companies often outperform more risky companies when the market is moving downward. What may surprise you, is that they also outperformed when the market return is neutral. They will however underperform when the market is performing exceptionally well.

Through extensive research using data since 1997, we have observed that a monthly upswing of greater than 4% happens only 19% of the time and a monthly return of worse than -4% occurs 10% of the time. That leaves an additional 71% when the market is in a neutral state (between -4% and +4%). In these periods of time the safer and less volatile companies, actually outperform higher risk companies. Therefore, it is a proven fact that less risky, low volatile companies outperform 81% of the time vs. waiting for the large upswings that occur just 19% of the time.



*Sources: MSCI, TD Asset Management, the above statistics represent equally-weighted portfolios constructed monthly from equities sorted by trailing 36 months standard deviation. Average monthly returns on MSCI World Index constitutes from April 1997 through March 2015. Risk computed as the standard deviation of monthly returns over the entire period. For illustration purposes only.

As shown above, a low volatility strategy would provide much more consistent returns throughout the different market cycles with performance to match. With these investments we can fulfill one of our most important rules of investing "Don't lose money!"

By avoiding the large down turns in the market we do not require the large upswings to regain back those losses.

What about the PERFORMANCE

Research has found that low volatile companies outperform 81% of the time vs. waiting for the large upswings that occur just 19% of the time.

We have acquired research from BMO Global Asset Management that tests our strategy by choosing only the least volatile companies (measured by beta). Beta measures the fluctuations of the investment in comparison to the market as a whole. An investment with a high beta value would fluctuate more than the market and an investment with a lower beta would fluctuate less than the market. The tests have shown that historically these low volatile investments have strongly outperformed the overall market.

In Canada, when running this strategy using data from December 1995 to December 2015, the average annual return of the portfolio was *13.88% vs. an average return of 7.52% for the S&P/TSX*.*

In the United States, the same strategy was tested using data from December 2002 and December 2015 and the average annual return of the portfolio was *10.58% vs an average return of 7.47% for the S&P 500 (CAD)*.*

The greatest difference was seen in the International markets excluding North America. From December 2007 to December 2015, the low volatility portfolio returned on average *9.61% vs. 3.00% (MSCI EAFE Index). A return over 200% greater than the index*.*

The performance is very impressive, but using beta alone as a volatility measure is not enough. By only using beta you develop strong bias towards certain sectors and large market capitalization companies. These companies carry very similar risks and could result in a decline if many variables in the market were to align. For this reason we have factored in many other variables in our model to reduce those risks even further.

Canada

Bell

Dollarama

Metro

Riocan Real Estate

USA

McDonalds

AT&T

Verizon

Dollar General

International

Power Assets Holdings

Heineken

Japan Real Estate Investment

*Sources: BMO Asset Management, performance is simulated from December 1995 through October 2011. After October 2011, performance is based on actual returns up until January 2016. Returns assume no transaction costs and are before fees. For illustration purposes only.

13.88% vs. 7.52%

LOW VOL vs. S&P/TSX

10.58% vs. 7.47%

LOW VOL vs. S&P 500

9.61% vs. 3.00%

LOW VOL vs. MSCI EAFE

Performance for the Long-Term*

By reducing the impact of negative returns in the market, it gives your portfolio a chance to grow for long-term success.

*Sources: BMO Asset Management, performance is simulated from December 1995 through October 2011. After October 2011, performance is based on actual returns up until January 2016. Returns assume no transaction costs and are before fees. For illustration purposes only.

Lets add some

ADDITIONAL STABILITY

We determined that with the beta measure, there is a bias towards consumer staples, utilities and health care. These sectors while very defensive are also correlated with each other and we have therefore identified this as a potential risk to the strategy. In order to protect the portfolio, we must not only use what has worked in the past but also strategize on what may happen in the future.

SECTOR STABILITY

STEP 1

To reduce these risks we have added supplementary investments with low volatility in other more cyclical sectors. To determine their fluctuations, we use standard deviation as our metric. Standard deviation is the measure of how far an investment fluctuates apart from its mean. This gives us the ability to add in stable companies in other low volatility sectors that beta may have missed.

Companies such as:

- TD (Canada)
- ADP (United States)
- Nestle (International)

By adding exposure to these secure companies in more cyclical sectors, we will be able to better protect against market concentration and complement the overall portfolio without losing the protection of the key defensive sectors.

GEOGRAPHICAL STABILITY

STEP 2

Our mandate is to truly invest globally, as there is a tendency for traditional portfolios to favour and over concentrate their holding in developed countries such as the United States regardless of what shifts are happening in the global economy. Research has shown that the largest performance gaps (our strategy vs. the index) occurred in Canada and other countries around the world, opposed to the United States. It is likely due to there being a lot of strong and stable companies around the world that are considered higher risk because of the country they are located in, rather than it being based on the companies fundamentals alone. Our global mandate allocates an appropriate level of exposure to companies that are in both developed and developing nations providing true global diversification and higher growth potential that can be often missed in traditionally balanced portfolios. To identify which regions and asset classes fit our strict investment criteria, we apply a relative strength model and analyze our findings through a top down macro approach to set and re-balance our asset allocation inside the portfolio.

RELATIVE STRENGTH

STEP 3

Relative strength is a guage of momentum that measures the velocity and magnitude of directional price movements. We use this to determine the performance of an individual investment and/or asset class (i.e. Equities, Bonds, Commodities, etc…) relative to their peers over the immediate to long-term and invest accordingly.

> “Low Volatility isn’t without drawbacks, this is why we introduced several layers of added stability that will either protect or take advantage of opportunities that a non-managed low volatility strategy may miss.”

LK WEALTH

BRINGING IT TOGETHER

IS IT RIGHT FOR YOU?

It has been proven that a consistent low volatility portfolio has outperformed a more volatile portfolio. This would decrease the stress or risk factor of the portfolio while achieving performance to match.

To achieve this, we invest in companies that fluctuate the least so it can reduce the overall portfolio volatility. The conventional thought would be that less risky companies underperform in the long-term versus the market. Instead, these companies actually outperform the rest of the market as a whole.

Through analysis of these less risky companies we have found that many of them are similar and reside in the same sectors with larger market capitalization. Because of this concentration bias we have identified that these companies also share similar risks.

To reduce these identified risks we have implemented additional diversification measures, by adding in the least risky companies of the underweighted sectors.

To further reduce these risks we have also applied a relative strength model to create a geographical allocation of these investments.

In conclusion, by concentrating on the simple principles of reducing possible losses and focusing on a globally diversified portfolio, we provide our clients with stable returns and less stress in the process.

QUESTIONS TO ASK YOURSELF:

1.Do you understand what your money is invested in currently?

2.Are you able to perfectly time the market?

3.Are you nervous or tired of the swings in the market?

4.Can you afford to go through another 2008 market crash without protecting yourself?

5.Do you understand the fees you pay for your investments?

If you answered "NO" to any of these questions and would like to know more about how we can help you implement this strategy, simply contact Konrad Kopacz or Justin Lim for a free complimentary assessment of your investment goals and strategy.

LK
WEALTH

> With over 40 years of combined financial services experience, we'll ensure you always get the best guidance.

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