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The Way I See It

By Sergio Simone



An Investor's Greatest Asset

Investors have access to more information today than at any time in history. Markets can be followed in real time, economic data is available almost instantly, and research that once belonged primarily to professional investment firms is now accessible to virtually anyone with an internet connection. Yet greater access to information has not eliminated one of investing's oldest challenges: the tendency to make decisions at precisely the wrong time.

A considerable body of investment research suggests that investor behaviour can have a meaningful influence on long-term results. One of the most frequently cited studies in this area was conducted by professors Brad Barber and Terrance Odean, who examined the investment accounts of more than 66,000 households. Their research found that the investors who traded most frequently produced substantially lower returns than the overall market during the period studied. While the market returned approximately 17.9% annually, the most active traders earned approximately 11.4%.

The conclusion was not that buying and selling investments is inherently harmful. Portfolios require maintenance, circumstances change and there are legitimate reasons for replacing investments. The research did, however, demonstrate that frequent activity does not necessarily improve investment results and that excessive trading can work against the investor.

Morningstar's 2026 Mind the Gap study examined the difference between the returns generated by investments and those actually experienced by investors over the ten years ending December 31, 2025. It found that the average dollar invested in U.S. mutual funds and exchange-traded funds earned approximately 8.7% annually, while the funds themselves generated approximately 9.9%.

The difference of roughly 1.2 percentage points per year was largely related to the timing and magnitude of investor purchases and withdrawals. Investors tended to move money at times that reduced the return they ultimately experienced. The investments produced the higher return, but investor behaviour meant the average invested dollar captured less of it.

Market timing presents another challenge. Investors who move to cash during periods of uncertainty must eventually decide when to return, and recoveries often begin before economic conditions or investor sentiment have noticeably improved. Vanguard has illustrated this by examining the S&P 500 from 1988 through 2024.

An investment of \$100,000 that remained invested throughout the period would have grown to approximately \$4.9 million. Missing only the ten best-performing days would have reduced the ending value to approximately \$2.3 million, with the annualized return declining from about 11.1% to 8.9%.

No investor knows in advance which days will be the market's best, and some of the strongest days have historically occurred close to periods of significant weakness. An investor who leaves during a downturn therefore faces two timing decisions: when to leave and when to return. That distinction matters because the difficulty is not simply recognizing that markets have become uncomfortable. It is knowing whether the discomfort reflects a permanent change in value or a temporary change in sentiment. History provides many examples of markets recovering before investors felt confident enough to return with conviction.

Time also plays a fundamental role through compounding. At a hypothetical annual return of 7%, \$100,000 would grow to approximately \$197,000 after ten years, \$387,000 after twenty years and \$761,000 after thirty years. The annual return is identical in each example. The difference is the length of time the investment has been allowed to compound.

None of this suggests that investors should buy investments and ignore them indefinitely. Portfolios should be monitored, assumptions reassessed and changes made when circumstances warrant them. The evidence does suggest that unnecessary intervention, attempts to time short-term market movements and decisions driven by emotion can significantly affect long-term outcomes.

The Way I See It

When people talk about what makes a successful investor, the conversation usually turns to knowledge, experience or the ability to identify exceptional investments. All have value. But after spending much of my career watching investors experience good markets, bad markets and almost everything in between, I have come to believe that the greatest asset an investor possesses is something much simpler: patience.

Knowledge can help us decide what to own. Experience can help us understand risk. Research can help us build a better portfolio, and a good advisor can help bring those pieces together. But none of them can eliminate the one ingredient every successful long-term investment strategy requires: time.

The problem is that we rarely experience time as an investment advantage while living through it. When markets fall sharply, patience does not feel particularly intelligent. Doing something does. Moving to cash can feel like taking control, changing investments like responding to new information, and waiting like doing nothing. Yet patience is not the absence of a decision. Very often, patience is the decision.

That does not mean remaining indefinitely in a bad investment or refusing to recognize that circumstances have changed. Patience and stubbornness are not the same thing. If the reasons for owning an investment have materially changed, if a portfolio has become unsuitable or if an investor's circumstances have changed, action may be appropriate.

The patience I am talking about comes after the work has been done. It assumes we have constructed an appropriate portfolio, diversified it intelligently, understood the risks and established why we own what we own. Once those decisions are made, patience gives them an opportunity to work.

This is harder than it sounds because markets constantly challenge our conviction. A falling market makes us question what we own. A rapidly rising market makes us fear missing something we do not own. Watching another investment outperform ours can make a sound strategy suddenly appear inadequate. The temptation is always to respond to what has just happened.

I also think the enormous amount of information available today can make patience harder rather than easier. We can check portfolios constantly, follow every market movement and hear endless opinions about what will happen next. Every geopolitical event, economic statistic and market decline arrives almost immediately. The information may be useful, but it can also create the impression that every development requires a response. Long-term investing often requires separating information that genuinely changes the investment case from the normal noise of markets.

The Morningstar research is especially interesting for this reason. The investments produced one return, but the average invested dollar experienced a lower return because of when investors moved money in and out. In many cases, the issue was not what the investor owned, but what the investor did while owning it.

There is another aspect of patience investors sometimes underestimate. Compounding becomes more powerful with time. In the early years, progress may appear modest. As the years accumulate, however, returns begin earning returns of their own, and an increasing share of growth can come from the gains already accumulated.

Every long-term investor will eventually experience a period when the strategy appears to have stopped working. There will be corrections, recessions, disappointing years and investments that temporarily fall out of favour. There will also be periods when something else seems obviously better. Those moments are unavoidable, and I believe they are when an investor's most important asset reveals itself.

It is not intelligence, access to more information or an ability to predict next month's market direction. It is patience. Patience gives a good business time to grow, a diversified portfolio time to move through a market cycle and compounding time to become meaningful. Perhaps most importantly, it helps prevent a temporary market event from becoming a permanent investment decision.

There will always be someone who knows more about a particular market, company or economic statistic than we do, and there will always be more sophisticated investment models and confident predictions about what happens next. Knowledge and expertise matter enormously. But if I had to choose the one quality that allows all of the others to deliver their greatest value, I would still choose patience.

The way I see it, patience may be the most valuable investment we ever make.



Lifestyle Planning Solutions

by Ryan Simone, CFP, CLU, CHS



Value First, Money Second

We're closing in on postseason baseball and I'm excited. Last year, the Toronto Blue Jays made a thrilling push for the World Series. They kept the country captivated throughout the fall and gave us some of the best baseball we've seen in years. Regardless of last year's outcome (or the year that has followed – yikes!) it was a glorious time to be a Blue Jays fan.

During that remarkable playoff run, Jays' pitcher Trey Yesavage burst onto the scene. Fresh out of the minor leagues, he stunned Toronto fans with an unforgettable performance against the New York Yankees. Ahead of his highly anticipated postseason debut, he famously declared, "I'm built for this." I love that line because it is filled with confidence. He wasn't bragging or claiming to be the best. He was simply saying that all the noise, pressure, and postseason chaos wouldn't prevent him from doing the one thing he was trained to do: throw a baseball and get batters out.

We face a lot of noise in life, especially today. We have unlimited access to news, content, and information while others have unlimited access to us. How often does your phone buzz with a notification? Emails arrive constantly. You're on vacation, yet work is still in your pocket and on your mind. My wife often tells me that I should actually enjoy my vacations instead of checking emails.

She's not wrong. Too much noise puts what I'm trying to achieve at risk: rest, recovery, and avoiding burnout. In baseball, you'll occasionally hear the phrase "rock and fire." Coaches use it as a simple rhythmic cue to help pitchers clear their heads, stop overthinking mechanics, and attack the strike zone. Funny enough, there are times I'd love to say that phrase at clients who are particularly vulnerable to all the financial noise and nonsense going around. But I'm not an insane person, so I resist.

Over my years as a financial planner, I've noticed that nearly everyone I meet has experienced emotional stress and financial anxiety at some time or another. It's a self-inflicted harm when a person becomes consumed by the mechanics of money. They worry about portfolio performance, market returns, interest rates, inflation, debt repayment strategies, whether to invest or pay down the mortgage, how much risk to take, whether they'll have enough for retirement, what "enough" even means, and when to take CPP or OAS. The list goes on and on.

Some people come to me after seeking answers elsewhere. Some have met with advisors who focused heavily on market forecasts that proved accurate for a period of time but not for a lifetime. Others were promised investment returns or given detailed explanations of RRSPs, TFSAs, and financial products.

While those conversations certainly have value, they're missing the point of having a financial plan. That's why people are surprised when they sit down with me for the first time. We don't start by talking about investments, account types, or market predictions. Instead, we talk about their relationship with money. We discuss what they did to earn it, why they chose the career or business they're in, what gives them purpose, and why they continue to work, especially if they no longer need to work.

I am on a search to discover a person's best life. And to do that, we need to first talk about what a person values long before we can get into the mechanics of an investment account.

This is not a new concept in financial planning or financial advice. Back in the early 2000s, Bill Bachrach wrote a book titled *Values-Based Financial Planning*. It's a seminal read amongst financial planners who are guided by the life-centered financial planning process.

Bill's book dives into the idea that understanding your own value system is the best way to decide what matters most to you, set your priorities, and accomplish your financial goals. In other words, it's a strategy that gives clients the power to cancel out the noise and create confidence that one's money is aligned to what is most important. Values first, money second.

Values discovery is also about discovering a person's best life. If you're reading this right now, ask yourself what does your best life look like? Are you living your best life? If not, then why? My best life is being a pitcher for the Toronto Blue Jays and then after I've aged out of the MLB at around 32 years old, I would spend my time paddling the many lakes and rivers across Canada. Now obviously my dreams at being an MLB pitcher died many years ago, so it is not a realistic vision of my best life. However, I do in fact have a realistic vision for what a good life looks like for myself and my family, And without too much surprise I hope, it is a vision aided by the same values-based discovery process I use with my own clients.

Imagine, for a moment, clearing away the noise. Imagine focusing not on the mechanics of money, but on what money is meant to help you achieve. Imagine directing your attention toward living your best life. This is the true service proposition of every life-centered financial planner. That is what the KPW Life Plan process is all about. We're discovering your best life, costing it out with a financial plan and then looking at what products get you to that vision.

A Recognition We're Proud to Share

Kleinburg Private Wealth named a 2026 5-Star Advisor Team in Canada



We were very pleased to learn that **Kleinburg Private Wealth has been recognized as a 2026 5-Star Advisor Team in Canada by Wealth Professional Canada**, placing our team among a distinguished group of wealth management firms and advisory teams from across the country.

Recognition like this is meaningful to us because it reflects something we have worked hard to build over many years. As the financial lives of the families we serve have become more complex, KPW has continued to evolve beyond traditional investment management to provide more integrated advice across investment, tax, retirement, corporate and estate planning considerations.

That evolution has required us to continually raise our own expectations — to ask better questions, look beyond individual transactions and consider how each financial decision fits within a client's broader wealth picture. We are proud of the recognition, but we also understand where it begins.

It begins with the trust our clients place in us.

To our clients, their families, our professional partners and everyone who has contributed to the growth of Kleinburg Private Wealth, thank you. We are grateful for your confidence and for the opportunity to continue earning it.

Ryan Simone
President
Kleinburg Private Wealth



Wealth & Wisdom

By Kristina De Souza, CFP, CFDS, RHS



Making the Most of Your RESP Withdrawals

For parents of post-secondary students, September represents more than a change in routine. It is often the point when a Registered Education Savings Plan finally begins doing what it was created to do. After years of contributions, government grants and investment growth, the RESP shifts from an accumulation account to a source of funding for tuition, books, housing and other education costs. While withdrawing money may seem straightforward, not all dollars inside an RESP are treated the same way for tax purposes, and the order in which money is withdrawn can make a meaningful difference.

Although an RESP statement may show one account balance, the money inside the plan effectively falls into two categories. The first consists of the subscriber's original contributions. When these amounts are withdrawn for a student attending post-secondary school, they are generally referred to as Post-Secondary Education, or PSE, withdrawals. Because RESP contributions were made with after-tax dollars and no deduction was received when the money went into the plan, these withdrawals are not taxable when they come out.

The second category is an Educational Assistance Payment, or EAP. This portion includes government incentives such as the Canada Education Savings Grant, together with the investment income and growth earned inside the RESP. EAPs are taxable, but they are generally taxed in the hands of the student rather than the parent. For many families, that can be advantageous because students often have relatively little taxable income and may also have access to the basic personal amount and tuition tax credits.

There are additional rules during the early stages of post-secondary education. During the first 13 consecutive weeks of qualifying full-time studies, EAP withdrawals are generally limited to \$8,000. For part-time studies, the corresponding limit is \$4,000 during the applicable 13-week period. Once the student has completed the initial qualifying period, larger EAP withdrawals can generally be made as long as the student remains eligible.

Because EAPs are taxable to the student while PSE withdrawals are tax free, many families may benefit from using EAP amounts earlier in the student's education, particularly when the student's other income is low. A first-year student with little employment income may be able to receive several thousand dollars of EAPs and pay little or no tax after available credits are considered. Preserving some of the PSE portion can also provide flexibility in later years if the student earns more through co-op placements, summer employment or internships.

There is another reason to pay attention to the EAP portion. Government grants are included within EAPs, so using those amounts while the student remains eligible can reduce the risk that unused grant money may eventually have to be returned if the student's education plans change. Families should also be aware of the CRA's annual threshold used by RESP providers when assessing whether EAP requests are considered reasonable. For 2026, that amount is \$29,459. Withdrawals above the threshold may still be permitted, but the RESP provider may request supporting documentation.

Another planning opportunity that receives less attention involves deciding whether all of the family's original RESP contributions need to remain inside the plan once the student has begun post-secondary education. If the family does not require all of the available PSE money for current tuition and living costs, withdrawing a portion of those tax-free contributions and moving the funds into the student's Tax-Free Savings Account or First Home Savings Account may be worth considering, assuming the student has available contribution room and meets the eligibility requirements.

The reasoning comes down to where future investment growth occurs. Money left inside the RESP can continue to grow, but future earnings become part of the EAP component and will eventually be taxable to the student when withdrawn.

If the same contribution dollars are withdrawn tax free and invested within the student's TFSA, future growth can remain tax free. If the student is eligible for an FHSA and eventually purchases a qualifying first home, that account can provide a similar tax-free growth opportunity together with tax-free qualifying withdrawals. If a home purchase does not occur, the FHSA may generally be transferred to an RRSP or RRIF without immediate tax consequences, subject to the applicable rules.

This type of strategy requires careful coordination. RESP providers may have their own administrative procedures, and the timing of contribution withdrawals can affect government grants in some circumstances. Families should also confirm minimum balances, withdrawal requirements and the student's available TFSA or FHSA room before proceeding.

Family RESPs can provide additional flexibility when more than one child is named as a beneficiary. If one child does not require all of the education funding originally anticipated, it may be possible to use certain amounts for another eligible beneficiary within the same family plan, subject to RESP and grant rules. Proper planning can help retain more of the benefit within the family rather than unnecessarily returning government incentives.

There may also be options when a beneficiary does not pursue post-secondary education. Under certain conditions, accumulated investment income inside an RESP may be transferred to the subscriber's RRSP or a spouse's RRSP, up to the permitted limit and provided sufficient RRSP contribution room is available. Timing withdrawals between calendar years can also matter, particularly where a student's income varies because of summer employment, co-op placements or part-time work. Coordinating taxable EAP income with tuition tax credits and other available credits may further reduce or eliminate the tax otherwise payable.

The years spent building an RESP receive a great deal of attention, but the withdrawal phase deserves just as much thought. How the money is taken out can affect taxes, government grants and the amount of capital that ultimately remains available to the student. For that reason, RESP withdrawals should ideally be viewed as part of the family's broader financial plan rather than simply as a series of tuition payments.

The strategies discussed here are intended as general information based on current RESP and tax rules and will not be appropriate in every situation. Before making significant withdrawals, families should review their specific RESP structure, the student's expected income and available tax credits, and any TFSA or FHSA opportunities with a qualified financial or tax professional.

At KPW Financial, we wish every student—and every family supporting them—a successful and well-funded academic year.



Canada-U.S. Trade and the Cost of Stalled Talks

For Canadian businesses, trade with the United States provides both a market for their products and a source of the materials and equipment they use to make them. The recent breakdown in Canada–U.S. trade negotiations has left businesses facing successive rounds of tariffs and further restrictions on cross-border sales. New American duties took effect on selected Canadian goods in August, followed by Canadian retaliation on September 8.

Washington subsequently revised its tariff list, extending 50% duties to additional Canadian products effective September 15, with import bans on certain goods scheduled for September 29. For affected companies, the consequences can extend from the price of their next shipment to decisions about hiring and factory expansion. Investors assessing those businesses must consider how much of the added cost they can absorb, whether customers will accept higher prices and how long the disruption could last.

The Canada–U.S. trade relationship connects businesses throughout the production process. Canadian-built vehicles, for example, contain American-made parts, while U.S. industries rely on Canadian energy and critical minerals. A Canadian manufacturer purchasing American components supports its supplier's sales, then adds its own labour and materials before selling the finished product, meaning that a border charge can affect several businesses involved in producing the same goods.

For companies organized around these cross-border purchases and sales, replacing a supplier may require testing new components or changing delivery schedules, while finding another customer can involve different product standards, shipping arrangements and sales costs. Those adjustments help explain why a business might continue trading across the border even when doing so becomes more expensive.

Companies that continue trading must decide how to handle the additional costs. By accepting an American buyer's request for a discount to offset part of the tariff, for instance, a Canadian exporter would earn less on each sale unless it could reduce its own expenses. If the buyer instead raised its selling price, weaker customer demand could reduce orders.

Canadian counter-tariffs create similar decisions for domestic businesses purchasing affected American goods, including manufacturers that sell all their finished products within Canada.

Their ability to recover higher expenses through prices would depend partly on whether customers could buy comparable goods elsewhere. A supplier of a specialized component, as an example, could be harder to replace, giving it more room to resist demands for a discount. Likewise, contracts can further limit price changes: a company allowed to recover higher costs could protect its profits more effectively than one committed to a fixed selling price. Investors examining trade exposure would therefore need to consider the products and contract terms behind a company's sales.

The tariff reductions discussed by Canadian and American negotiators in August offered the prospect of easing these costs. U.S. Trade Representative Jamieson Greer said the preliminary agreement included lower tariffs on autos, steel and aluminum, while Prime Minister Mark Carney said Canada was prepared to remove its remaining retaliatory tariffs on those industries in exchange for substantial American reductions. Canada's offer followed earlier concessions: in 2025, Ottawa agreed to rescind its digital services tax and announced the removal of a broad range of counter-tariffs. The proposed exchange would have extended that reduction in Canadian measures while securing relief for Canadian producers facing American duties.

Nevertheless, the August negotiations faltered. Carney said last-minute American changes made the proposed terms unfair and uneconomic. In explaining Canada's objections, he cited demands involving French-language and cultural protections, influence over Canada's future trade agreements, and terms that would weaken Canada's auto, steel and forestry industries. Greer, by comparison, attributed the breakdown to new Canadian demands and withdrawn commitments, though he offered fewer specifics about the disputed terms.

Elaborating on the U.S. account, Commerce Secretary Howard Lutnick identified Canadian requests for truck-tariff relief as one point of disagreement. As it stands, neither government has released an official transcript of the negotiations, leaving the sequence of events disputed.

Following the breakdown in talks, Canadian and American officials have remained in contact, although formal negotiations have yet to resume. Without an agreement, companies awaiting lower duties were left planning around existing charges. Further, Washington announced import prohibitions on certain Canadian products, including alcoholic beverages and motorcycles, due September 29, have forced affected businesses to prepare for losing access to American customers.

For a company selling a product covered by an import prohibition, losing access to American customers could leave inventory unsold and production capacity unused while it searches for replacement buyers. Throughout that search, the company would still have bills to pay. Even businesses able to continue shipping across the border could need more cash to manage disruption. For example, a company that builds extra inventory to protect against delivery interruptions has to pay for goods before it sells them. If customers also take longer to place orders, that money remains unavailable for other expenses, potentially forcing a business with limited cash reserves to borrow more and adding interest costs to the pressure on its profits.

The need to fund existing operations can leave less money available for expansion, while uncertainty about future trade rules can make new projects harder to justify. For a Canadian manufacturer evaluating new machinery to serve an American customer, for instance, the expected return depends on future orders and the cost of delivering them; if tariff changes could make those orders unprofitable before the machinery is installed, management might postpone the purchase. In that case, the delay would also affect the equipment supplier and any hiring associated with the expansion. The longer the manufacturer waits for dependable access to its American customer, the more reason it may have to investigate other markets.

In response to the recent trade developments, Canada is pursuing investment and stronger commercial relationships in Europe, Asia and the Middle East that could help businesses develop those alternatives. Indeed, additional customers could gradually reduce individual companies' dependence on U.S. sales, although finding them requires time and spending.

Before committing to a larger expansion, a manufacturer considering an overseas market would need to establish whether the selling price could cover transport, distribution and any product changes required by local customers, then test those estimates by fulfilling an initial order. For investors in those companies, the resulting sales and profits would provide evidence of whether efforts to reach new markets were improving the business.

Shareholders and people considering buying shares in companies trading between Canada and the United States can also use changes in sales and profits to assess how the dispute could affect the value of an investment.

Reduced profits on sales, fewer orders and delayed expansion would each lower the earnings a company might otherwise generate; as investors revise their expectations, a share price could adjust before the damage appears in reported results. An agreement, however, could support valuations where the resulting improvement in business prospects exceeds what investors had already anticipated. Assessing that improvement requires examining which costs the agreement removes and whether the affected companies could recover lost orders or resume postponed investment.

At the end of the day, Canadian and American businesses have an interest in preserving access to the suppliers and customers around which they have built their operations. A negotiated reduction in tariffs would ease costs, while the removal of import restrictions would allow affected companies to continue serving those customers. Businesses would also need confidence that the agreed terms would remain in place long enough to justify further investment. A settlement that meets those conditions would give companies in both countries a better basis for committing to production and hiring.



The Illusion of Diversification

by Sergio Simone

Diversification is one of the most familiar principles in investing. Most investors understand the basic idea: spreading capital among many investments reduces the risk that the failure of any one company, sector or market will have an outsized effect on the overall portfolio. It is one of the reasons mutual funds and exchange-traded funds have become such important building blocks for individual investors.

The difficulty is that diversification can sometimes look more substantial on a portfolio statement than it actually is. An investor may own several mutual funds or ETFs, each containing dozens or even hundreds of securities, and reasonably conclude that the portfolio is broadly diversified. Yet if those funds are heavily invested in many of the same companies, sectors and economic themes, the number of holdings can give a misleading impression of how widely risk is actually spread.

That issue has become particularly relevant in the U.S. equity market. As of August 31, 2026, the ten largest constituents of the S&P 500 represented approximately 37.8% of the entire index. The largest single company accounted for about 8.1%, while the information technology sector represented approximately 37.9% of the index.

The S&P 500 still contains more than 500 constituent securities, so it remains an extremely broad collection of American businesses. However, those companies are not represented equally. The index is weighted primarily according to market capitalization, meaning that as a company becomes larger, it also becomes a larger component of the index. The strongest-performing companies can therefore exert considerably more influence over both the index's returns and its risk characteristics.

That is not a flaw in the S&P 500. It is simply how the index is designed. Market-capitalization weighting has many advantages and has served investors well over long periods. But it does mean that owning an index containing hundreds of companies should not automatically be interpreted as having equal exposure to hundreds of companies.

Market concentration often develops for a very understandable reason: successful companies become more valuable. Over the past several years, a relatively small group of large technology and technology-related businesses has grown at an extraordinary pace. Nvidia, Apple, Microsoft, Amazon, Alphabet, Broadcom, Meta Platforms and other very large companies now occupy prominent positions within major U.S. indexes. Several are also closely connected to the enormous investment currently taking place in artificial intelligence, cloud computing, data centres, semiconductors and related infrastructure.

Morningstar calculated earlier this year that the ten largest stocks represented more than one-third of the value of its broad U.S. Market Index, even though that index contained more than 1,100 companies. None of this necessarily means these companies are overvalued, nor does it suggest that their success is about to end. Large companies can remain large, and highly profitable businesses can continue growing for very long periods. Concentration by itself is not a forecast. What it does tell us is that the composition of the market has changed and that portfolios need to be understood in that context.

This becomes more important when investors own several funds. Consider an investor who owns a broad U.S. equity fund, a technology fund, a growth fund and perhaps a global equity fund. On the surface, that may appear to represent four distinct investments with different mandates. In reality, each fund could have meaningful positions in many of the same very large companies.

The names of the funds may be different and the portfolio statement may show four separate line items, yet underneath those line items the investor may repeatedly own Nvidia, Microsoft, Apple, Amazon, Alphabet, Meta and other large companies. Some overlap is almost unavoidable when investors own broad-market strategies. The concern arises when the investor does not realize how much overlap exists and therefore believes the portfolio is more diversified than it actually is.

Artificial intelligence provides a particularly good current example. AI exposure is no longer confined to funds carrying the words “technology” or “artificial intelligence” in their names. Many of the companies benefiting from AI investment are among the largest constituents of broad-market, growth and global equity indexes. An investor does not necessarily need to own a specialized AI fund to have meaningful exposure to the theme because it may already be present, sometimes repeatedly, throughout the portfolio.

True diversification is therefore better understood as diversification across different sources of return and risk rather than simply across a large number of securities. Geography matters. Industry exposure matters. Company size and investment style matter. Fixed income, equities, real assets and cash also behave differently under different economic conditions. Even within equities, businesses whose fortunes depend heavily on interest rates, consumer spending, commodity prices or technological investment may respond very differently to the same economic environment.

The objective is not to eliminate every area of concentration. That would be neither realistic nor necessarily desirable. If an investor owns the broad market, the portfolio should naturally reflect areas of the economy that have become larger and more successful. The more important objective is to understand where the concentrations exist and ensure that they are intentional.

This distinction becomes particularly important after a prolonged period of strong performance. When one group of companies outperforms for several years, its weight within market-capitalization indexes increases automatically. Investors who also add specialized funds focused on the same area can increase that exposure even further, sometimes without recognizing how large it has become. In this way, strong performance itself can gradually create concentration inside a portfolio.

There is also a danger in taking the concentration argument too far. The answer is not necessarily to sell successful companies simply because they have become large. Many of today's leading businesses became large because their revenues, profits and competitive positions grew dramatically. Nor does diversification require every sector, country or investment style to have the same allocation. Markets are not equally distributed, and neither are economic opportunities.

The more useful approach is to examine the portfolio as a whole. How much of the total equity exposure ultimately resides in the same ten or twenty companies? How much comes from technology and closely related sectors? How much is invested outside the United States? How much depends upon the continued strength of large growth companies? Those questions tell us far more than simply counting the number of funds.

Artificial intelligence makes this discussion particularly timely because the financial commitment being made to AI is now enormous. Semiconductor manufacturers, cloud providers, software companies, data-centre developers and businesses supplying the electricity and infrastructure required to support AI are participating in one of the largest technology investment cycles in recent memory.

This creates genuine investment opportunities, but it also means that what appears to be exposure to several separate industries may ultimately depend upon a common underlying assumption: that AI investment and adoption continue to grow sufficiently to justify the capital being committed. That does not make the investment case wrong, but it does suggest that several very large companies may increasingly share exposure to the same underlying economic story.

Perhaps the most important lesson is that diversification should not be judged by the length of an investment statement. An investor can own five funds and be very well diversified, while another can own fifteen funds and still have substantial exposure to the same group of companies. Adding another fund does not necessarily add another source of diversification if the new fund simply owns more of what is already there.

The current level of market concentration does not mean investors should abandon broad-market indexes or avoid the companies that have led recent market growth. It does suggest that portfolio construction requires a deeper look beneath the surface. Diversification remains one of the most effective tools available for managing investment risk, but it works best when we understand what is actually being diversified.

A portfolio should ultimately be judged not by how many investments it contains, but by whether those investments provide meaningfully different sources of return and risk and whether any unintended exposure has quietly become large enough to dominate the outcome. In a market where a relatively small number of extraordinarily successful companies have become such a significant part of the whole, that distinction is increasingly important.



The Investment Risk We Rarely Associate With Cash

by Sergio Simone

There is something reassuring about cash. The account balance does not fluctuate with the stock market, there is no uncomfortable red number on the statement at the end of a difficult month, and the money is generally available when it is needed. For investors who have lived through several periods of significant market volatility, that stability can be particularly appealing.

Over the past few years, cash has also become easier to justify as an investment. Higher interest rates meant that savings accounts, money-market investments and Guaranteed Investment Certificates once again produced meaningful income after many years in which interest rates had been extraordinarily low. Investors could earn a return without accepting the daily fluctuations associated with stocks and bonds, and for many people that combination of income and stability was understandably attractive.

The interest-rate environment is already different from the one investors experienced at the peak of the recent rate cycle. On September 2, 2026, the Bank of Canada maintained its overnight rate at 2.25%, where it has remained since October 2025. At the same time, Statistics Canada reported that consumer prices were 3.0% higher in August than they had been a year earlier.

Those two numbers are not directly comparable to the return an investor may receive on a particular savings account or GIC, but together they illustrate an important point: the return shown on a cash investment is only one part of the equation.

When investors think about risk, they usually think about the possibility of losing money. Cash appears to solve that problem because a dollar generally remains a dollar. But investment risk is broader than the possibility of seeing an account decline in value. There is also the risk that the money fails to maintain its purchasing power, the risk that future interest rates are lower when an investment matures, the effect of taxation on the income being earned, and the opportunity cost of keeping long-term capital in an asset that was designed primarily for stability rather than growth.

Inflation is perhaps the easiest of these risks to understand. If the cost of goods and services rises faster than the return being earned on cash, the account balance may be increasing while the amount that money can actually purchase is declining. The loss does not appear on an investment statement because it occurs gradually through higher prices.

Consider a simple example. If \$100,000 earns 3% over a year, the account has generated \$3,000 of income. If inflation during the same period is also 3%, the investor has approximately maintained purchasing power before considering tax. In a taxable account, however, interest income must generally be reported as income for tax purposes. The Canada Revenue Agency specifically includes interest from bank accounts, term deposits and GICs as reportable investment income. Once tax is paid, the investor's after-tax return may therefore be below the rate at which the cost of living has increased.

The actual result will depend on the investor's tax rate, the account in which the investment is held and the rate being earned, but the principle is important. A stable account value is not necessarily the same thing as preserving wealth. For investors with significant taxable assets, the difference between a quoted interest rate and the return they retain after tax and inflation can become meaningful over long periods.

This does not make GICs, savings accounts or other cash investments poor investments. They are exceptionally useful when the investment objective matches what they are designed to provide. Money required for taxes, a home purchase, a major expenditure or anticipated withdrawals over the next year or two should generally not be exposed to unnecessary market risk. Cash can also provide an important reserve for retirees who are drawing regular income from their portfolios, reducing the need to sell longer-term investments during a market downturn.

The question becomes more complicated when money intended for long-term goals remains in cash simply because cash feels more comfortable.

Suppose an investor moves a significant portion of a portfolio into cash during a period of market uncertainty. Initially, the decision may feel successful because the investor no longer sees the daily volatility that prompted the concern. The challenge is that this decision eventually creates another decision: when should the money be reinvested?

Markets rarely provide an obvious signal that uncertainty has ended. By the time economic conditions appear comfortable again, markets may already have recovered substantially. The investor then faces the difficult choice of buying back at higher prices or continuing to wait. What began as a temporary move toward safety can gradually become a long-term asset allocation without that ever having been the original intention.

There is also reinvestment risk to consider. A GIC may provide certainty about the interest rate that will be earned until maturity, but it cannot guarantee the rate that will be available when the term ends. An investor who became comfortable receiving relatively high interest income during a period of elevated rates may discover at maturity that comparable investments now pay considerably less. The principal remains intact, but the income it can generate has changed.

This distinction matters particularly for retirees and other investors who rely on portfolio income. If an investment strategy is built around today's interest rate rather than around a longer-term financial plan, declining rates can require either accepting less income, committing capital for longer periods, spending more principal or taking additional investment risk later. None of those choices is necessarily inappropriate, but they demonstrate why the absence of market volatility does not mean the absence of risk.

Opportunity cost is more difficult to see because it represents a return that was never earned. Cash is designed primarily to provide liquidity and capital stability. Equities, by contrast, represent ownership in businesses whose revenues, profits and values have the potential to grow over time. An investor with a twenty-year objective who keeps a substantial portion of capital permanently in cash may avoid many short-term market declines, but may also give up years of potential participation in economic and corporate growth.

That does not mean an investor should compare every year's cash return with every year's stock-market return. Markets can decline sharply, sometimes for extended periods, and money that will be required in the near future should not depend upon the market being favourable on the day it is needed. The relevant question is whether the investment being used matches the time horizon and purpose of the capital.

This is where the role of cash becomes much clearer. Cash is particularly effective when it has a defined job. It can fund near-term spending, provide an emergency reserve, meet tax obligations, cover several months or years of retirement withdrawals, or hold money temporarily while a longer-term investment decision is being made. In each of those situations, stability and liquidity may be far more important than maximizing return.

Problems tend to arise when cash stops being a financial-planning tool and becomes a permanent response to uncertainty. An investor may begin with a legitimate reserve and gradually accumulate much more cash than the financial plan requires. Because the balance does not fluctuate, there is little pressure to reconsider the decision. The risks associated with inflation, taxation and lost long-term growth accumulate quietly rather than appearing suddenly on a statement. For some investors, substantial cash holdings are completely appropriate.

Personal circumstances, liquidity needs, risk tolerance and the timing of future expenditures all matter. There is no correct percentage that applies to every portfolio. A family preparing to purchase a property next year has very different needs from an investor accumulating capital for retirement twenty years from now, just as a retiree funding monthly expenses has different requirements from someone who does not expect to draw from the portfolio for many years.

The important distinction is between money that is in cash because it should be there and money that is in cash because the investor is afraid to put it anywhere else. The first is a financial-planning decision. The second can become a market-timing decision, even if it was never intended that way.

Cash remains one of the most useful tools in a financial plan. It provides certainty, liquidity and stability that other investments cannot always provide, and eligible deposits and GICs at CDIC member institutions may also qualify for deposit protection within applicable limits and coverage categories. Its value should not be underestimated, and neither, however, should its limitations.

For long-term investors, safety should not be measured solely by whether an account balance fluctuates. Protecting capital also means considering what that capital will purchase years from now, what remains after tax, whether future income can be maintained and whether the money has been given an appropriate opportunity to grow.

Cash can protect us from one kind of risk while exposing us to several others. The objective is not to avoid cash, but to make certain that the amount we hold reflects what the money is actually intended to accomplish. When every part of a portfolio has a purpose, cash becomes exactly what it should be: an important component of the financial plan rather than a substitute for one.

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An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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