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A Detailed Guide to Investment Planning

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What's Inside

About this Guide

Whether you are a recent investor, a seasoned veteran, or somewhere in between, investing may cause feelings of apprehension because of the unknown. How do we best prepare with confidence for a financial future that is uncertain? The answer is with a well-developed investment plan.

For all investors, a solid investment plan is a valuable financial management resource. Managing finances with confidence requires a plan or a course of action, and investment planning is a valuable tool for evaluating where you are, where you want to go, and how to get there all while protecting your financial health.

This guide is intended to assist housing providers to develop a thoughtful, well-structured investment plan focused on their needs. Investment plans allow needs to be prioritized over wants and help to ensure that investments are made at the right time to allow for future maintenance, repair and rehabilitation of properties. An investment plan outlines your roadmap for the future and can help to provide you with confidence during volatile periods.

In this guide, we will provide information on how to develop an investment plan for your organization. You will also learn how to develop a plan that will keep your investments on track in the face of uncertainty, and what you can do to ride out financial storms and protect your financial interests.

What is Investment Planning?

Investment planning is the process of matching your financial goals and objectives with the financial capital available. It describes the planned use of your resources to support upcoming projects, such as updating the roof of your building or installing new equipment.

The main goal of investment planning is to generate the capital you will need to meet your financial goals, in a way that aligns with your ability and capacity to take on risk. All investing involves risk, even saving in a bank account or a Guaranteed Investment Certificate (GIC). Investment planning allows investors to match their investments to the time horizon of their spending needs, which is fundamental to managing the risks of investing. Investment plans are designed to:

- **Clarify accountability:** Typically, a finance department is responsible for the management of the investment planning function, however, this responsibility may sit with the Board of Directors, property manager or other individuals within your organization.

- **Promote integration:** Effective investment planning ensures resources are allocated in a manner that clearly supports the organizations' priorities. Your investment plan should directly support your organization's strategic plan (if there is one in place) and function as one element of your organization's overall corporate strategy.

  A key component to integrated investment planning is to engage the right people early in the process. Investment planning could include individuals in audit, procurement, risk management and other departments. It could also include peoplle involved in planning capital expenditures or ongoing projects and maintenance. Each organization is structured differently, however stakeholders should be used to support investment planning decisions and referenced as necessary.

- **Be flexible:** Investment planning should meet your organization's needs and reflect the environment in which it is expected to deliver on its mandate. However, things change and when they inevitably do, it is important to have the flexibility to tailor your plan to changing circumstances.

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Developing Your Investment Plan

Every investment plan is different, tailored to meet the unique needs of each organization. Effective investment planning sets investment objectives, identifies and implements appropriate investment strategies, and manages your investments in the periodic periods of volatility.

Investment Objectives

The first step to building an investment plan is to identify your investment objectives. Investment objectives take into consideration your capital spending requirements, the timing of the spending, and your ability and capacity to take on risk. Approach your investment plan as a project with milestones, deliverables, and deadlines all working to achieve planned objectives (short-term, intermediate, and long-term).

This information will then be used to develop a target asset allocation that is aligned with your specific needs. Asset allocation refers to the mix of investments in a portfolio; we will look at some potential types of investments, or "asset classes," and how they can be combined, in the coming pages.

A great place to start your investment planning project is your Building Condition Assessment (BCA); it should provide you with valuable information in developing your capital plan **TIP**. A capital plan tracks and manages long-term capital project requirements. Your capital plan should set out when major expenditures will occur and prepare for these large withdrawals (typically more than 30% from the reserve). By designating short- and long-term funds, you can build a portfolio that takes an optimal amount of risk given your long-term plans.

For example, if a roof will need repairing in 7-10 years, some of the funds allocated for these repairs may be best suited for the longer–term nature of equities.

Why? Because short-term volatility is less relevant for a long-term investment as there is ample time for markets to recover before the capital is required. Expenditures that are expected to occur sooner are generally better suited for bond funds as bonds are generally less volatile than equities.
A basic investment concept is that longer-term investments offer higher rewards for their higher level of risk. Consequently, the timing of spending is a critical factor in your investment plan.

Matching the time horizon of large expenditures to the time horizon of your investments is the best way to avoid having to make a large withdrawal at an

TIP

For Encasa investors in Ontario, Housing Services Corporation, the Ontario Non-Profit Housing Association and the Co-Operative Housing Federation of Canada have the tools and resources to help build your BCA.

For investors in British Columbia, the BC Non-Profit Housing Association and the Co-Operative Housing Federation of British Columbia have the tools and resources to help build your BCA.

inopportune time, such as after a significant drawdown in the markets. This turns a paper loss into an actual loss that can never be recovered.

Once your investment objectives are set, you're ready to move on to implementing an investment strategy.

Key Asset Classes

"Asset classes" is an industry term for the types of investments that can be included in a portfolio. Among the most important for housing providers are the following:

- **Cash and equivalents:** this could include bank accounts, money market mutual funds, or high interest savings accounts (HISAs). These are safe investments that typically offer a low but steady return, with limited potential to lose value. Cash and equivalent investments are suitable for funds that might be needed in the short term (e.g., 0-2 years) and where the risk of loss should be minimized.

- **Short-term bonds**: bonds are a form of debt security, which are issued by governments, businesses and other entities and can be bought (and sold) by investors. Most bonds pay interest to investors twice a year, with the full amount of the debt repaid at the bond's maturity date. Bonds can fluctuate in value based on the movement of interest rates, so they are less certain as a store of short-term value than cash and equivalent investments. Short-term bonds are typically those that will be repaid within 5 years. The short time horizon of these bonds typically reduces the amount of return that they offer, as well as the amount by which their prices fluctuate. This makes them suitable for investment horizons of 3-4 years in most cases.

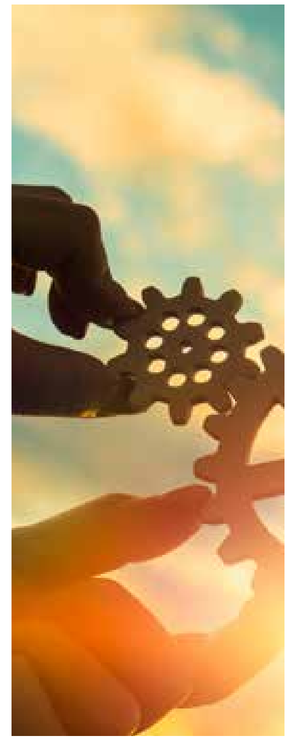
- **"Universe" or longer-dated bond funds:** these are bond funds that hold a mix of bonds with longer average maturities than short-term bond funds. This generally means they will offer a higher return, but the longer time to maturity of their bonds means that they can also fluctuate more in value with changes to interest rates. This makes them suitable for investments with slightly longer timeframes – e.g., 5-9 years.

- **Equities:** these are investments in company shares that represent ownership in operating businesses in Canada and around the world. Shares fluctuate in value based on companies' profits and on investors' outlook for how company profits will grow in the future. Equities historically have delivered higher returns than bonds, but because so much of their value depends on forecasts of future profits, their value can fluctuate more in the short term, making them most suitable for long-term investments (e.g., 10-20 years or more).

Investment Strategies

Investors come in all shapes and sizes, and with different needs. Luckily, the most effective investment strategies revolve around a few simple principles. Here are three effective investment strategies to consider in your investment plan:

Portfolio Diversification



Most investment professionals would agree that diversification is among the most important principles for achieving long-term financial goals while minimizing risk.

It is no secret that diversification is the only free lunch in investing. It is the most effective strategy for managing risk available to investors. Diversification is a simple concept – don't put all your (investing) eggs in one basket.

Diversification means holding various types of investments in your portfolio, thereby reducing the risk of any one investment underperforming and causing serious impairment to your portfolio.

While mutual funds are already well-diversified within an asset class, diversifying across different asset classes is important because it is almost impossible to guess which asset class will outperform in any given year. The below chart showcases how different asset classes, as well as asset classes from different regions, have performed each year, with the best performers at the top. One asset class may be a top performer one year and the poorest performer in another. For example, Canadian Equities was the weakest asset class in 2015 (rate of return of -8.3%) and the strongest in 2016 (rate of return of 21.1%).

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
International Equities 14.8%	US Equities 41.5%	US Equities 24.0%	US Equities 21.0%	Canadian Equities 21.1%	International Equities 16.6%	US Equities 4.3%	US Equities 24.8%	US Equities 16.3%	US Equities 27.6%	Cash 2.3%	US Equities 22.9%
US Equities 13.5%	International Equities 31.3%	Canadian Equities 10.6%	International Equities 18.3%	US Equities 8.6%	US Equities 13.6%	Canadian Bonds 1.4%	Canadian Equities 22.9%	Canadian Bonds 8.7%	Canadian Equities 25.1%	Canadian Equities -5.8%	International Equities 15.7%
Canadian Equities 7.2%	Canadian Equities 13.0%	Canadian Bonds 8.8%	Canadian Bonds 3.5%	Canadian Bonds 1.7%	Canadian Equities 9.1%	Cash 1.2%	International Equities 15.9%	International Equities 6.4%	International Equities 10.8%	International Equities -7.8%	Canadian Equities 11.8%
Canadian Bonds 3.6%	Cash 1.0%	International Equities 3.7%	Cash 0.6%	Cash 0.5%	Canadian Bonds 2.5%	International Equities -5.9%	Canadian Bonds 6.9%	Canadian Equities 5.6%	Cash 0.1%	Canadian Bonds -11.7%	Canadian Bonds 6.7%
Cash 0.9%	Canadian Bonds -1.2%	Cash 0.9%	Canadian Equities -8.30%	International Equities -2%	Cash 0.6%	Canadian Equities -8.9%	Cash 1.7%	Cash 0.4%	Canadian Bonds -2.5%	US Equities -12.2%	Cash 4.8%

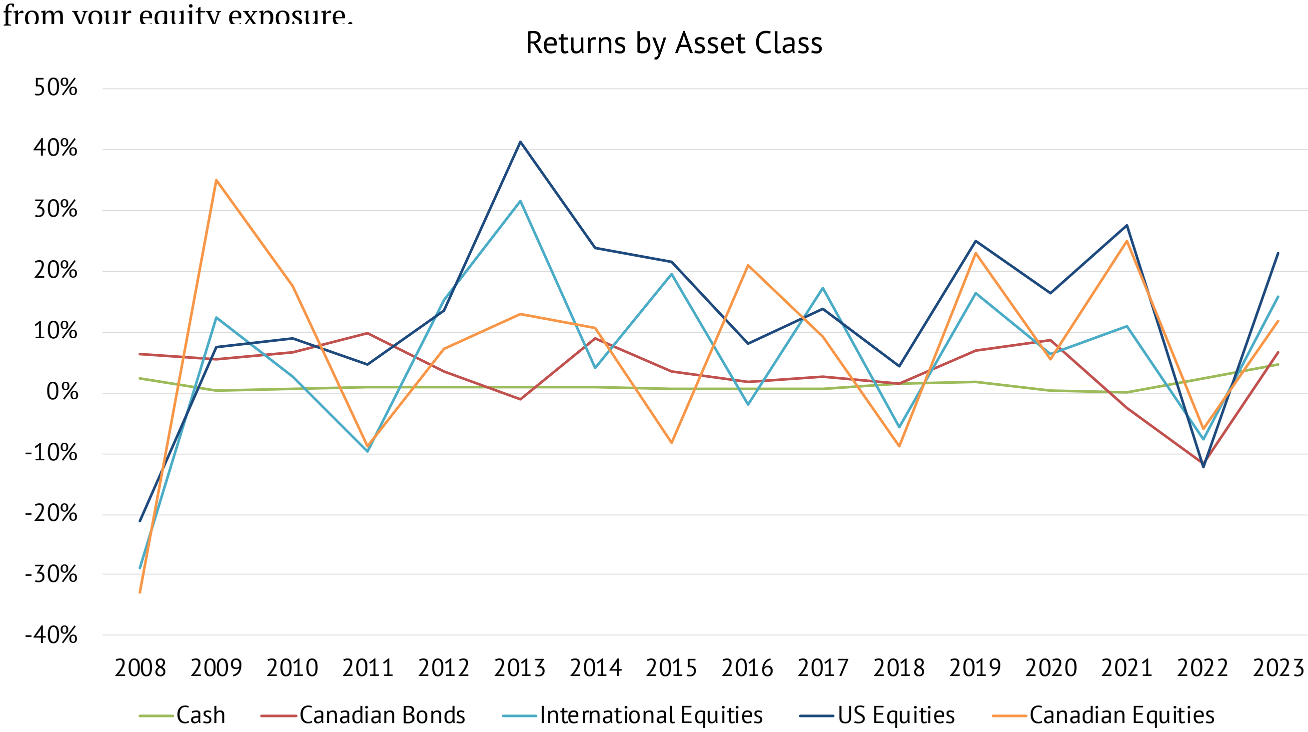
Cash	**FTSE TMX Canada 30 Day T-Bill Index**
Canadian Bonds	**FTSE TMX Canada Universe Bond Index**
Canadian Equities	**S&P/TSX Composite Index**
US Equities	**S&P 500 Index**
International Equities	**MSCI EAFE Index**

Source: Encasa analysis of eVestment data

Asset Allocation

Developing a suitable asset allocation that considers your investment objectives and risk tolerance has been proven to be the most important factor in reducing volatility. Asset allocation relies on the notion that different asset classes offer returns that are not perfectly correlated and diversifying portfolios across asset classes will help to optimize risk-adjusted returns. This is why it may be beneficial to hold both equities and bonds in your portfolio. Many investors prefer to keep all their assets in the lowest-risk investment, which can reduce returns over longer time horizons. Placing 100% of your investment in only one asset class exposes you to risk that can be reduced through diversification.

For example, using the chart below, we can calculate that even if you began investing at the beginning of 2008 (just prior to the financial crisis), a well-diversified equity portfolio (35% Canada, 45% US, 20% EAFE) would have seen an annualized return of 8.6% (before fees) from 2008-2023 in Canadian Dollars. A portfolio consisting of only Canadian bonds (measured by the TMX Canada Universe Bond Index) would have an annualized return of 3.4% over the same period. The lesson here is that unless you have a crystal ball at your disposal, markets are unpredictable and diversifying your portfolio is one of the best ways to increase your risk-adjusted returns. By diversifying across equities and bonds, you can reduce the volatility in the portfolio while still achieving competitive potential returns from your equity exposure.



Source: Encasa analysis of eVestment data

Rebalancing

While it is important to adhere to your plan, monitoring it regularly is another crucial step in the investment planning process. It is important to review your plan periodically to confirm it is still in line with your long-term goals. The allocation in your portfolio shifts over time with the performance of the underlying investments. For example, investments that have done well will become a larger part of your total portfolio, causing an imbalance to the target allocation in your original plan. In order to realign your allocation back to the target allocation, you will need to rebalance.

Rebalancing is a discipline that takes emotion out of your investment decisions. It involves selling assets that have performed well and buying assets that have lagged in order to bring the asset allocation back in line with the plan. There are various options for the timing of the rebalance. This process can be completed at predetermined time intervals (i.e. quarterly/annually) or when the asset classes diverge by a set percentage from the target asset allocation.

Once you've developed a solid investment plan, your focus should be on following it whether by sticking to your plan or maintaining your asset allocation.

But what happens when markets are down and your investments are losing value?

Investment Management During Market Volatility

A popular notion in investing is that the proof of a successful investment plan isn't how well your portfolio performs when things are going well but how it reacts to a market downturn. This is why it is vital to plan for and expect significant volatilities from time to time. When you create your investment plan, know that a market correction will happen. Markets go up and markets go down; the key is how you react.

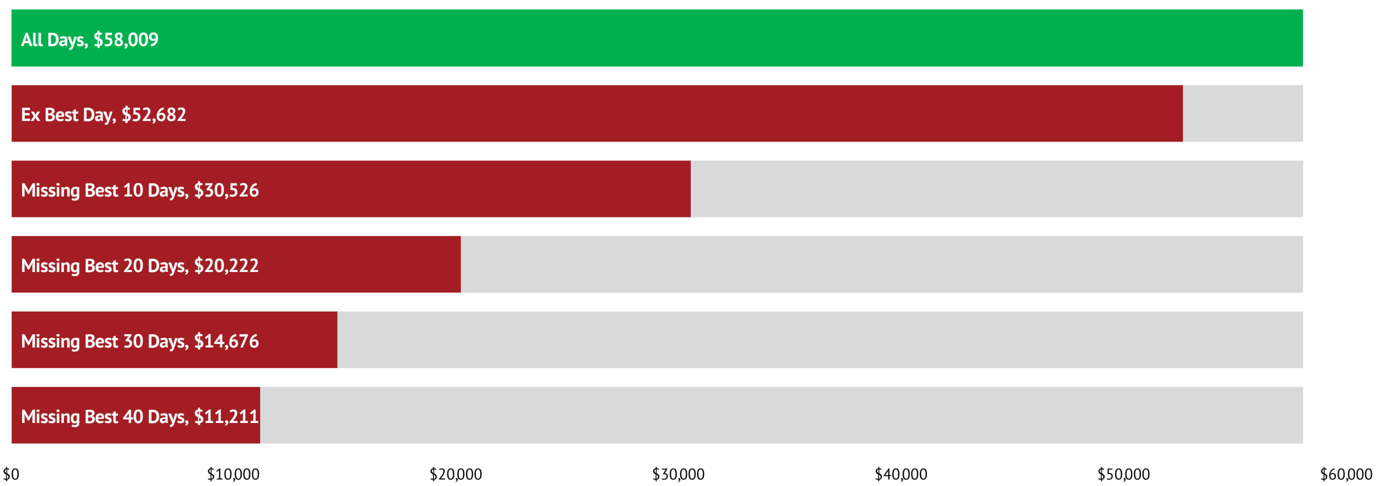
While this can be very concerning, it is important to remember that historically there are more "bull" markets than "bear" markets and that markets always rebound. The critical factor is how long it takes to recover losses and to ensure that your spending requirements are aligned with your allocation. These are helpful points to keep in mind while you navigate market downturns.

Sticking to your investment plan during market volatility is a key step in investing. Developing, monitoring, and rebalancing are crucial to keeping your plan in line with your long-term economic goals, but adhering to your plan during uncertainty ensures that your plan remains on course. If your investment plan is built correctly, market volatility has already been taken into account and you will be able to weather the storm simply by holding tight. It is a simple yet effective approach.

Reacting impulsively to declining markets can compromise your long-term goals. It is virtually impossible to time market tops and market bottoms (despite what the so-called experts de jour may profess) and selling in the short term can be extremely costly to your long-term plan as you are more than likely to miss some or all of an eventual rebound. Remember, it is not about timing the market, but the time spent in the market. The chart below based on the S&P 500 Index (in CAD) shows the significant differences in return (in dollars) as a result of missing only a few of the best days. For example, if you missed the best 30 days in the market, your initial investment of $10,000 would only be worth $14,676. You can see that reacting emotionally may end up causing more harm to your portfolio than the market correction itself.

There are real costs to missing out:

$10,000 invested in the S&P 500 (12/31/04–12/29/23)



Data is historical. Past performance is not a guarantee of future results.

Source: Encasa analysis of Bloomberg data

History has also shown that some of the best performing years in the market immediately follow some of the worst performing years. It is impossible to know when the bottom has been reached and the recovery will occur. Although it can be difficult during market downturns, sticking to your long-term plan will ensure you remain invested when the market begins to rally. This means that for investors who have a long-term outlook, stay calm and remain patient, the rewards can be substantial! As evidenced by the asset performance chart on page 6, taking a long-term view on your investment plan is the most effective approach. Market volatility is one of the risks you take when you invest in equities, and it can be trying for even the most disciplined investors. If you have a long time horizon and can manage the negative emotions during downturns, the results will be more rewarding for your portfolio over time.

Take the below chart, which lists each period where the S&P/TSX declined more than 30% from peak to trough. As you can see, the 3-month and 1-year returns from the time the trough was reached are significant. Missing out on these market rallies would significantly reduce the long term performance of your portfolio.

S&P/TSX declines of more than 30%					
				Price Returns (from Trough)	
Peak	Trough	Length (Months)	Decline	3 months	1 year
Sep 1929	June 1932	33	(81%)	46%	79%
Jul 1956	Dec 1957	17	(30%)	6%	27%
Oct 1973	Sep 1974	11	(37%)	1%	17%
Nov 1980	Jul 1982	19	(44%)	26%	84%
Aug 1987	Oct 1987	3	(31%)	8%	20%
Apr 1998	Oct 1998	6	(32%)	25%	31%
Sep 2000	Oct 2002	25	(50%)	19%	34%
Jun 2008	Mar 2009	9	(50%)	39%	58%

Source: Datastream; for period Sept. 2, 1929 to Mar. 9, 2009

2020 has been a test case for staying invested. In February and March, the equity markets globally fell over 30% for the first time since 2008 as a result of the economic fallout from the COVID-19 pandemic. Those who left the market out of fear and panic missed out on the V-shaped rebound that began at the end of March.

Dollar-cost averaging spreads out your investment by investing the same amount of money at regular intervals (e.g. monthly). This smooths your purchase price over time and makes sure you are not investing all of your money at an inopportune time. This strategy is useful in volatile markets because you are buying more units when prices are cheap (or on sale) and less when the prices are high.

Market volatility is inherent in investing and while it can be a nerve-racking experience, historical context is helpful for avoiding emotional decisions and helping you to remain calm during periods of downside volatility.

Monitor and Review

Your investment team should periodically review the investment plan to ensure that it remains appropriate. As the estimated amount and timing of capital needs change over time, it may be advisable to modify the plan. Many organizations schedule a formal annual review of their investment plan to make sure that it remains suitable over time.

Help With Investment Planning

If you don't have an investment professional that your organization works with, this might be the perfect time to find one. Working with your Encasa Investment Funds Advisor is valuable as you develop your investment plan. Financial advisors can provide professional advice, help you to develop your investment plan and recommend any steps you can take to grow your wealth. There may be unique opportunities specific to your investment portfolio that your Advisor can advise you on and they can even help you to manage your emotions. Your Advisor will help you to build a portfolio that is appropriately suited to your situation and designed to meet your long-term capital. **TIP**

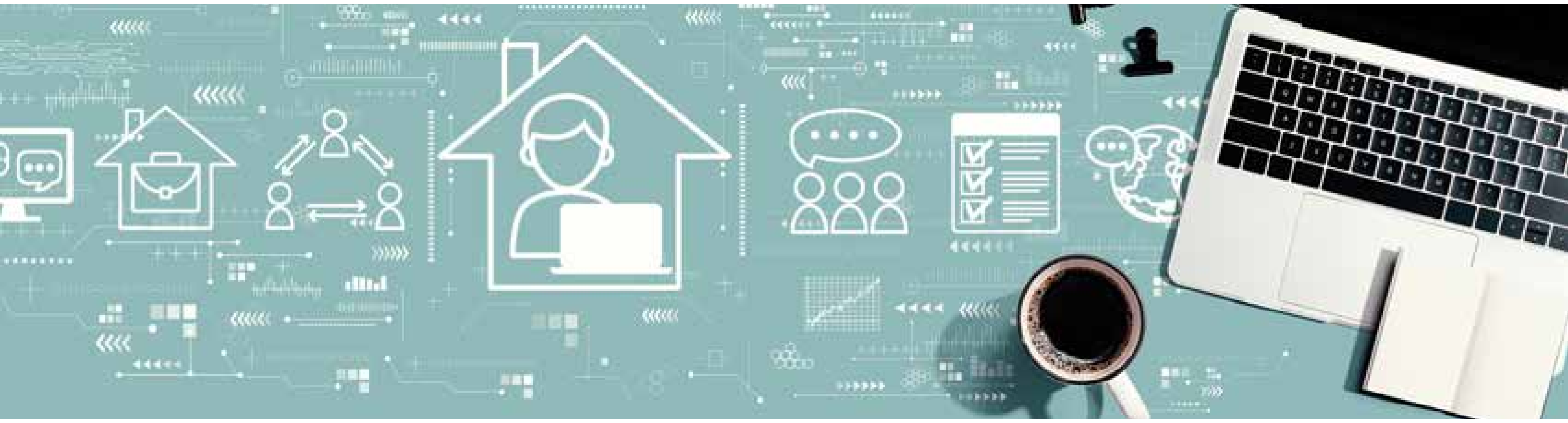
Encasa Financial makes investing simple and affordable, offering lower management expense ratios to investors. Our team holds deep-rooted expertise within the non-profit sector, giving us a distinct understanding of unique business needs. Start your investment plan off by contacting us at information@encasa.ca or visit www.encasa.ca

TIP

Remember to review your investment plan periodically to ensure everything is going according to plan. Your Advisor can recommend changes or adjustments necessary to continue working towards your goals

Final Take

Your investment plan is crucial in reaching your long-term capital needs and is a process that requires attention on a continuous basis. While developing the plan is a key first step , monitoring and reassessing the plan regularly are equally important. This means making sure your plan is right for your long-term capital requirements, making necessary updates as your needs change, and rebalancing as the asset allocation starts to diverge from your target. Sticking to your plan, even in times of high volatility, can help you to avoid making any decisions out of fear or anxiety that would harm the long-term performance of your investment portfolio and reduce the likelihood of reaching your goals.



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