Risk: medium, second most risky of the three asset classes listed here
Expected returns: approximately -0.5% compound average growth rate over the next five years for the broad Canadian bond market
Reasons to own: insurance from market fluctuations, ability to know the value of the investment at a future date (maturity), steady predictable income

Cash (or cash equivalents): certainty of value with no fluctuations, which pays interest but usually at a lower rate than bonds.
Example: high-interest savings account
Risk: low, lowest risk of the three asset classes discussed here
Expected returns: close to +0.5% compound average growth rate for the next five years
Reasons to own: certainty, liquidity to pay for living expenses, ability to purchase other investments quickly

* Estimate source: BlackRock Investment Institute, Capital market assumptions (**https://www.blackrock.com/institutions/en-us/insights/charts/capital-market-assumptions**).Individual investments listed are for example purposes only.

Historical returns for asset class returns

Why would anyone want to invest in low-returning investments, as described above for bonds and cash? The answer is risk tolerance. Treating your investments like a horse race, where you are trying to pick the winner every time, typically leads to suboptimal outcomes. Instead, investors typically have a mix of investments, called "diversification," that helps them customize their investments (or "portfolio") to be more in line with their specific risk tolerance.

Should the market fall, the diversified investor is more able to stick to their investment strategy. This compared to the investor always trying to pick the winning stock ("horse") but not able to tolerate the risk involved with that strategy. This typically leads to investors making poor decisions based on their emotions.

Below is a table of the three asset classes over the last five years. The main point the table illustrates is that returns fluctuate year to year, and different asset classes perform better or worse in different years. So, picking the winner each year is difficult for even the best investors.**

2016	2017	2018	2019	2020
Equities +17.5%	Equities +6.0%	Bonds +1.4%	Equities +19.1%	Bonds +2.2%
Bonds +1.7%	Bonds +2.5%	Cash +1.4%	Bonds +6.9%	Equities +5.6%
Cash +0.5%	Cash +0.6%	Equities -11.6%	Cash +1.6%	Cash +0.9%

** Returns in Canadian dollars. Data source: Raymond James Market Pulse, December 31, 2020.

Which investment is best for you?

Like most things in life, it depends. The level of risk that you want to take on with your investment savings is unique to your personal financial situation and personality. This detail is most likely captured in your personal financial plan. It is likely that the right investment for you is a mix of the three discussed asset classes in varying proportions, to align with your risk tolerance.

A financial advisor can help you to first create a financial plan unique to your personal situation, and then marry that plan with an investment strategy that takes into consideration your goals, risk tolerance and financial situation. Every year or two, repeat this exercise and rebalance your investment portfolio to suit your risk tolerance at that time. This will make you much more likely to meet your financial goals – so that when you retire, you can focus on what matters most.

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