

The most important number in your portfolio



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In strong markets, it's easy to forget how long investment plans are meant to last.

When stocks are rallying, volatility feels like a historical artifact, and every new technology cycle seems like the beginning of a permanent acceleration. In those moments, a 6.5- or 7.5-per-cent target return can start to sound timid – even quaint. Why settle for that when markets feel like they can deliver 10 or 12 per cent indefinitely?

Yet quietly, almost stubbornly, foundations, family offices and long-term institutional investors continue to anchor their portfolios to those same modest-sounding targets. Not because they lack ambition. And not because they don't believe in growth. But because they understand something most investors only rediscover after a painful drawdown: Target returns are not annual promises. They are long-run averages across full market cycles.

A 6.5- to 7.5-per-cent target isn't pessimistic. It is an expression of longevity.

And in periods like the one we are in now – when assets feel fully priced; conviction is harder to come by; and the investment landscape is clouded by geopolitics, private fund gating, writedowns, and growing dispersion between what is marked and what is real – that principle becomes more than theoretical.

It becomes a practical framework: Sustain purchasing power, support spending, compound capital through regimes we can't predict.

When foundations and families set long-run target returns, they don't start with optimism. They start with constraints. They ask: What downside can we tolerate? How much liquidity do we need? What volatility can our spending policy survive?

Only after those questions are answered do they back into a target return. And only after a target return is set do they build an asset allocation designed to meet it – or modestly exceed it – in a way that respects those risk limits.

In that framework, a 6.5- to 7.5-per-cent long-run target isn't conservative. It's engineered.

The real enemy of long-term compounding isn't a few years of underperformance. It's deep drawdowns that permanently impair capital and take years to recover from. A portfolio that loses 40 per cent doesn't need a good year, it needs a 67-per-cent recovery just to get back to even. That math alone explains why sophisticated investors obsess more about downside protection than upside participation.

This is why the most dangerous time to raise return targets is when markets feel easiest.

In good times, it's tempting to revise expectations upward, add imprudent leverage, reach for complexity, tolerate illiquidity – because it feels like nothing ever goes wrong.

As Mike Tyson once put it, *everyone has a plan until they get punched in the mouth.*

The problem isn't optimism. The problem is building portfolios that only work when markets cooperate.

Foundations and multigenerational families understand this intuitively. Their investment programs are not designed to be impressive in any given calendar year. They are designed to be functional across very different regimes. They care less about headline returns than about the probability of staying solvent, liquid and operational through all of it.

Good portfolios are not built by ranking strategies by last year's returns. They are built by assigning different roles to different exposures and then allowing each of those roles to do its job across full market cycles.

This is why sophisticated investors resist the urge to rotate out of structurally sound exposures simply because they did not look exciting in the past 12 months. The discipline is not to chase whatever just worked. The discipline is to preserve the architecture that makes the long-run math work.

Recency bias and short-termism are not disciplines. They are sources of error.

Which brings us to the quiet, unglamorous workhorse of long-term portfolios: fixed income.

In bull markets, fixed income is treated as dead weight by some. Its returns can look pedestrian beside equities when its role is misunderstood. And its purpose is too often sacrificed while pursuing higher short-term returns.

But fixed income was never meant to be overly exciting. It exists to stabilize portfolios, generate dependable cash flow, dampen volatility and create the staying power required to compound over long horizons. Some funds have proven likely to meet those target returns outright.

On a risk-adjusted basis, fixed income is often the superior performer.

Investors care about Sharpe ratios and downside capture only in moments of fear – but those measures determine whether a portfolio survives long enough to achieve its long-run average return.

It may not be as widely known, but certain well-constructed, conservatively managed credit and income strategies can generate 6, 7, even 8 per cent without taking on undue risk, long duration or heroic assumptions. They have proven to support the risk parameters plus the return needs of a portfolio. Those funds still offer liquidity, and might be labelled credit, mortgage, hedge fund or private debt.

In institutional portfolios, fixed income isn't a consolation prize. It's structural glue.

This doesn't mean investors should abandon growth assets. It means they should stop pretending that the purpose of a portfolio is to maximize returns in good years. The real purpose is to remain functional in bad ones.

A well-designed portfolio accepts that not all strategies will fire at once. It accepts that markets move in regimes, that some years will be boring. And it accepts that earning a durable 6.5 to 7.5 per cent, on average, across decades is far more powerful than chasing a fragile 10 per cent that exists only until the next drawdown.

Who had US\$5,000 gold or bitcoin down 6 per cent on their bingo card? Or an environment where geopolitics, central bank independence questions, fund gating and real writedowns co-exist with relentless optimism? This is precisely why durable portfolios outperform fragile ones.

There is nothing timid about that mindset. It is disciplined. It is mature. And it is quietly optimistic, because it assumes capital will still be standing when opportunity arrives.

The most important number in your portfolio is not what it makes this year. It is what it can reliably compound over the next 10, 20. And that number is almost always lower – and far more meaningful – than anyone wants to admit when markets feel easy.

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