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**MODERN PORTFOLIO THEORY AND THE EFFICIENT MARKETS
HYPOTHESIS: HOW WELL DID THEY SERVE CANADA'S
BABY-BOOM GENERATION?**

Abstract:

Modern Portfolio Theory (MPT) and the Efficient Markets Hypothesis (EMH) have had considerable influence over portfolio management strategies for the last forty years. This is also the time that the bulk of the baby boom generation entered and started to retire from the work force. Taking the example of an average Canadian family from 1977 to 2016, this paper examines how well the tenets of MPT and EMH served this generation of investors. A model investing strategy was constructed based on the principles of MPT and EMH. The results of this strategy were evaluated for the portfolio's ability to adequately provide for the subject couple's financial needs in retirement. Results of the model portfolio were compared to other popular investment alternatives. Using generally-accepted rules-of-thumb in financial planning, the model portfolio was found to have provided an adequate retirement income for the subject couple. Some of the other strategies moderately exceeded the returns of the model portfolio, while others underperformed this benchmark. Analysis of these discrepancies reinforced the significance of diversifying among and within asset classes, and of rebalancing portfolios through dynamic asset allocation.

Keywords:

Modern Portfolio Theory (MPT), Efficient Markets Hypothesis (EMH), baby-boom generation, indexing, portfolio management

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