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Building a Perfect Portfolio

In partnership with MoneySense

iShares® by BlackRock®

9 Steps to the Perfect ETF Portfolio

Dan Bortolotti

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STEP 1

Set a realistic goal

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1. Set a realistic goal

- **Before you choose the right tool, you need to define the job**
- **Your goal should be specific and attainable**
- **Ideally done with a financial planner, but an online calculator can help**

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1. Set a realistic goal

Sample goal:

- **I currently have $175,000**
- **I am saving $500 a month**
- **I would like to have $500,000 when I retire in 15 years**

STEP 2

Determine your risk profile

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2. Determine your risk profile

- **Your portfolio should consider your ability, willingness and need to take risk**

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2. Determine your risk profile

Your ability to take risk depends on:

- **Your time horizon**
- **The stability of your income**

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2. Determine your risk profile

Your willingness to take risk depends on:

- **Your tolerance for losses**
- **Your experience with investing**

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2. Determine your risk profile

Your need to take risk depends on:

- **How close you are to achieving your financial goal**
- **Your target rate of return**

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STEP 3

Choose your asset mix

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3. Choose your asset mix

- **Your portfolio's mix of stocks and bonds is determined by your target rate of return and your risk tolerance**
- **The idea is to take as much risk as you need to, but no more**

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3. Choose your asset mix

Consider expected returns for stocks and bonds. For example:

- **7.2% for stocks**
- **3% for bonds**

Subtract investment costs:

- **0.5% for ETFs**

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3. Choose your asset mix

Expected return on a portfolio of 60% stocks and 40% bonds:

7.2% x 60%	4.3%
3% x 40%	+ 1.2%
Minus fees	– 0.5%
Total	5.0%

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3. Choose your asset mix

Is 5% enough to reach our goal?

If we start at $175,000

and contribute $500 a month

and achieve a 5% annual return

we'll have $504,099 in 15 years

STEP 4

Select your ETFs

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4. Select your ETFs

- **There are now more than 300 exchange-traded products on the Toronto Stock Exchange**
- **Stick to broadly diversified, plain vanilla, low-cost funds**
- **You need only three to six ETFs to build a diversified portfolio**

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4. Select your ETFs

- **20% Canadian stocks**
- **15% U.S. stocks**
- **15% International stocks**
- **10% Real estate**
- **30% Government and corporate bonds**
- **10% Real-return bonds**

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4. Select your ETFs

- **20% iShares S&P/TSX Capped Composite (XIC)**
- **15% U.S. stocks**
- **15% International stocks**
- **10% Real estate**
- **30% Government and corporate bonds**
- **10% Real-return bonds**

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4. Select your ETFs

- **20% iShares S&P/TSX Capped Composite (XIC)**
- **15% iShares S&P 500 (XUS)**
- **15% International stocks**
- **10% Real estate**
- **30% Government and corporate bonds**
- **10% Real-return bonds**

4. Select your ETFs

- **20% iShares S&P/TSX Capped Composite (XIC)**
- **15% iShares S&P 500 (XUS)**
- **15% iShares MSCI EAFE IMI (XEF)**
- **10% Real estate**
- **30% Government and corporate bonds**
- **10% Real-return bonds**

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4. Select your ETFs

- **20% iShares S&P/TSX Capped Composite (XIC)**
- **15% iShares S&P 500 (XUS)**
- **15% iShares MSCI EAFE IMI (XEF)**
- **10% iShares S&P/TSX Capped REITs (XRE)**
- **30% Government and corporate bonds**
- **10% Real-return bonds**

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4. Select your ETFs

- **20% iShares S&P/TSX Capped Composite (XIC)**
- **15% iShares S&P 500 (XUS)**
- **15% iShares MSCI EAFE IMI (XEF)**
- **10% iShares S&P/TSX Capped REITs (XRE)**
- **30% iShares DEX Universe Bond (XBB)**
- **10% Real-return bonds**

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4. Select your ETFs

- **20% iShares S&P/TSX Capped Composite (XIC)**
- **15% iShares S&P 500 (XUS)**
- **15% iShares MSCI EAFE IMI (XEF)**
- **10% iShares S&P/TSX Capped REITs (XRE)**
- **30% iShares DEX Universe Bond (XBB)**
- **10% iShares DEX Real Return Bond (XRB)**

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4. Select your ETFs

- **3,000+ stocks in more than 20 countries and several currencies**
- **Real estate**
- **800 government and corporate bonds of all maturities**
- **Inflation-protected bonds**
- **Total cost: 0.32%**

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STEP 5

Open your brokerage account

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5. Open your brokerage account

- Big bank brokerages have **similar options**
- $50,000 should ensure you pay **no account fees** and get **$10 trades**
- Independent brokerages have **lower fees** and commissions
- Some offer **commission-free ETFs**

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STEP 6

Place your ETF trades

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6. Place your ETF trades

How to read an ETF quote:

ISHARES S&P/TSX CAPPED COMPOSITE INDEX FUND

XIC:TSX

Set Alert | Add to WatchList

Last	Change	Bid (size)	Ask (size)	Volume	Day Range	
$21.13	+$0.140 (0.66698%)	21.12 (2)	21.15 (170)	120,492	20.96 - 21.14	Buy Sell

Show Level Two Quotes

6. Place your ETF trades

How to read an ETF quote:

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Show Level Two Quotes

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6. Place your ETF trades

Assuming a $175,000 portfolio, a 20% holding in Canadian stocks is $35,000:

$35,000 ÷ $21.15

= 1,654.846 shares

≈ 1,650 shares of XIC

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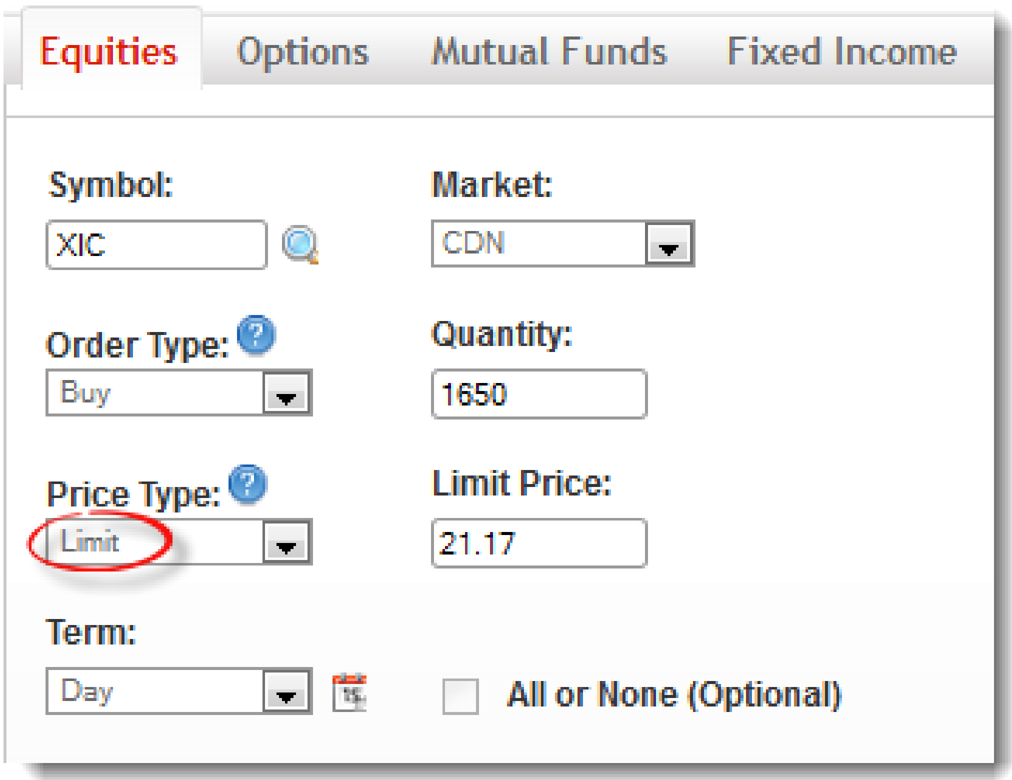
6. Place your ETF trades

Place a limit order for 1,650 shares:



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6. Place your ETF trades

- **Trading volume has little to do with ETF liquidity**
- **Be aware of bid ask-spreads, which can be higher than commissions**
- **Always trade when market is open and avoid first and last few minutes**

STEP 7

Rebalance your portfolio

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7. Rebalance your portfolio

- **Your portfolio will stray from its target asset mix as markets move**
- **Rebalancing means selling what has gone up and buying what has gone down**
- **Can be done annually, by thresholds or whenever you add a lump sum**

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7. Rebalance your portfolio

	Current Allocation		Difference	Action	
iShares S&P/TSX Composite	41,200	21.7%	1.7%	Sell	3,200
iShares S&P 500	33,500	17.6%	2.6%	Sell	5,000
iShares MSCI EAFE IMI	32,300	17.0%	2.0%	Sell	3,800
iShares S&P/TSX Capped REIT	22,500	11.8%	1.8%	Sell	3,500
Total Equity	**129,500**	**68.2%**	**8.2%**		
iShare DEX Universe Bond	42,400	22.3%	-7.7%	Buy	14,600
iShares DEX Real-Return Bond	16,600	8.7%	-1.3%	Buy	2,400
Total Fixed Income	**59,000**	**31.1%**	**-8.9%**		
Cash	1,500	0.8%		Sell	1,500
	$190,000				

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7. Rebalance your portfolio

	Current Allocation	
iShares S&P/TSX Composite	38,000	20.0%
iShares S&P 500	28,500	15.0%
iShares MSCI EAFE IMI	28,500	15.0%
iShares S&P/TSX Capped REIT	19,000	10.0%
Total Equity	**114,000**	**60.0%**
iShare DEX Universe Bond	57,000	30.0%
iShares DEX Real-Return Bond	19,000	10.0%
Total Fixed Income	**76,000**	**40.0%**
Cash	0	
	$190,000	

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7. Rebalance your portfolio

- **Rebalancing encourages buying low and selling high**
- **It imposes discipline by discouraging market timing**
- **It keeps risk at a consistent level**
- **May enhance returns**
- **Always consider costs and taxes**

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STEP 8

Monitor your performance

8. Monitor your performance

- **Most investors don’t know their portfolio’s rate of return**
- **Contributions and withdrawals make the calculation difficult**
- **Advisors and brokerages are often unhelpful**

8. Monitor your performance

- **Your brokerage statement shows only price changes, not dividends or interest**
- **This can lead to huge misunderstandings about your performance**

8. Monitor your performance

iShares 1-5 Year Laddered Government Bond (CLF)

- **October 31, 2010: $20.45**
- **October 31, 2013: $19.13**
- **Your brokerage would show a loss of –6.45% over those three years**

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8. Monitor your performance

iShares 1-5 Year Laddered Government Bond (CLF)

Total Returns (%) as of 31-Oct-2013

Quarter-End Month-End

	1 Month	3 Month	6 Months	YTD	1 Year	3 Year	5 Year
NAV	0.66	0.96	0.49	1.59	1.76	2.50	3.50
Index	0.65	1.01	0.55	1.67	1.86	2.64	3.76

STEP 9

Stay the course

9. Stay the course

- **This is how the smart money invests**
- **Some asset classes will always be underperforming: that’s why we diversify**
- **Forecasts are usually wrong**
- **Your friends are only sharing their successes not their failures**

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