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**Kim Inglis, BCom, CIM, PFP, FCSI, AIFP**

# Buy-and-hold the most basic ETF strategy

## Many ways to use these popular vehicles

Exchange-traded funds (ETFs) made their first appearance in 1989 and now represent an estimated $1.7 trillion in assets under management worldwide. There are many ways to use these popular investment vehicles.

The most basic strategy is buy and hold. It's a hands-off approach that is easy to implement and is designed to provide low cost market returns. Investors generally buy a single index or a few different ETFs that provide diversified exposure based on geography, asset allocation, and style. For instance, investors who believe the Canadian markets will provide long-term value might opt for the iShares S&P/TSX 60 Index Fund (TSX: XIU). It provides exposure to a wide range of the largest and most liquid companies on the TSX Composite Index.

Another strategy is asset class allocation. According to The Vanguard Group, strategic asset allocation accounts for more than 100% of long-term portfolio performance. In this regard, ETFs are extremely versatile and can be used as building blocks in an asset allocation program. One can achieve broad exposure to market segments by using ETFs to construct the core of the portfolio. Investors simply buy ETFs from different asset classes and rebalance them according to their long-term allocation program. An advantage to this approach is that it can reduce portfolio volatility if one segment performs poorly.

The core/satellite approach is another long-term ETF strategy. It's used by many large pension funds and mixes both passive and active approaches. Investors use broad-scale ETFs for the core portfolio to generate benchmark returns while using targeted, actively-managed ETFs as satellites to generate outperformance. Canaccord Genuity strategist Martin Roberge believes investors should be overweight energy. If investors wished to use a satellite to enhance exposure to energy, they might opt for the iShares S&P/TSX Capped Energy Index Fund (TSX: XEG). It's comprised of Canadian energy sector securities listed on the TSX.

The pyramid strategy builds on the idea of risk and segmentation. Investors start with a base layer comprised of passive, lower risk investments such as broad market ETFs, fixed income, and cash equivalents. Each subsequent layer is proportionately smaller and contains riskier investments. For instance, a pyramid strategy might start with a conservative base and build by adding layers of growth and value ETFs, mid- and small-cap ETFs, and sector/industry ETFs followed by single stock exposure as the highest risk/reward.

ETFs are also commonly used as part of a portfolio completion strategy, to gain targeted exposure to a particular sector or style. For instance, an investor may have a fairly well diversified stock portfolio, but is lacking exposure

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to the real estate sector. If the investor wanted exposure to the area without taking on any single stock risk, they could purchase a real estate sector-specific ETF such as the iShares S&P/TSX Capped REIT Index (TSX: XRE).

Those who are not comfortable making ETF choices can opt for a portfolio of ETFs. These are diversified portfolios of ETFs that are actively managed by professionals. They generally include a mix of asset classes and styles. Holdings often include short and long term fixed income, small and mid-cap domestic and international equities, as well as commodities, alternatives, and real estate.

*Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author. www.kiminglis.ca.*