Play This ETF Trifecta for Long-Term Success

Description

Ask any investment professional who follows a passive-investment strategy using ETFs, and they'll likely tell you that the **iShares S&P TSX Capped Cmpst Indx Fnd** (TSX:XIC) should be a core component of any client portfolio. It is, after all, a representation of 240 of Canada's biggest and best companies.

The advisor will then overlay several other ETFs to provide diversification geographically, by market cap, sector, volatility, and many other possible options in order to protect the client from life's uncertainties.

Or you could do what I'm suggesting and simply buy three specific ETFs–one trading on the TSX and two others on the New York Stock Exchange. However, they're not the ones you might expect. Most people reading this would probably guess the XIC plus an S&P 500-related ETF as well as something more global in nature based on the MSCI EAFE Index.

For the purposes of this exercise, I'll use the biggest ETFs by assets under management: the **SPDR S&P 500 ETF** (NYSEARCA:SPY), the **iShares MSCI EAFE Index ETF** (NYSEARCA:EFA), and, of course, the XIC to illustrate my point.

By investing $10,000 Canadian in each of these ETFs on May 19, 2011, you would have $43,031 exactly five years later, an annualized total return of 7.5%; most of the returns were generated by the strengthening of the U.S. dollar as well as the S&P 500.

That's not too bad when you consider ploughing the entire $30,000 into XIC would have netted you a profit of $628 instead of a little over $13,000.

Now, here's my trifecta of ETFs.

Take $30,000 Canadian and invest it equally by thirds in the **iShares S&P/TSX Capped Consumer Staples Index Fund** (TSX:XST), **Vanguard Consumer Staples ETF** (NYSEARCA:VDC), and **SPDR S&P International Consmr Stap (ETF)** (NYSEARCA:IPS).

Using the consumer staples approach, a $30,000 investment five years ago is worth $63,741 today–an annualized total return of 16.3%, more than double the broad-based index ETFs.

So, here's why my trifecta idea isn't nearly as crazy as you might think.

Between 2003 and 2015, of the 10 sectors that make up the S&P 500, only consumer discretionary stocks did better than consumer staples. And while there were other sectors whose best year was better than consumer staples (information technology's best year was when it was up 61.7% versus consumer staples' best year was when it was up 26.1%), no sector managed to do better on the downside with its worst year being a modest 15.4% decline.

Finally, consider that over these 13 years, the S&P 500 had an annual total return of less than 10% a total of five times, averaging a decline of 4.6%. The consumer staples' stock's average return in those five years was 920 basis points better–up 4.6%. Most importantly, consumer staples stocks over those 13 years did 137 basis points better on an annual basis than the S&P 500 itself.

By buying these three consumer staples ETFs, you protect against one of the major weaknesses of the TSX, which is a lack of quality stocks other than resources and financials. While XST has just 11 holdings, VDC and IPS combined invest in 313 companies, making it far more diversified than if you restricted yourself to ETFs denominated in Canadian currency only.

It's a trifecta you can bet on.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/22
Date Created
2016/05/20
Author
washworth