



Royal Bank of Canada: It's Part of the Ultimate All-Cap Financial Portfolio

Description

Take a look at the average market capitalization of the **Vanguard FTSE Canada All-Cap Index ETF** ([TSX:VCN](#)), a TSX-listed ETF with about \$622 million in total assets. It's not small by Canadian standards, but it's no **iShares SP TSX 60 Index Fund**, which has \$12.7 billion in total assets and is, by far, Canada's biggest ETF.

You could invest in the TSX 60 Index Fund to get broad exposure to a significant portion of the Canadian stock market. However, what you can in terms of large-cap companies, you lose in terms of all-cap diversification.

There several ways investors can remedy that. One way is to find a mutual fund or ETF that follows an all-cap investment philosophy. Most, however, are large caps masquerading as all-cap funds.

The VCN is a classic example. Although it has an all-cap mandate, 75% of its 222 holdings are large- or jumbo-cap stocks with an average market cap of \$23 billion. Small- and mid-cap stocks account for just 2.3% and 22.7% of the portfolio's holdings, respectively.

It's hardly an all-cap portfolio—but why the big fuss?

If you'd watched the World Series this year, you would have noticed that the Chicago Cubs won for the first time in 108 years as a result of a complete team effort, including a Game seven home run by retiring 39-year-old catcher David Ross. Like the Cubs or any other winning team, results can come from the most unexpected places sometimes.

With a true all-cap portfolio, you've got a great chance of meeting your retirement goals.

To show you what I mean, I'll create a four-stock all-cap financial portfolio featuring **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), VCN's top holding and the foundation for my other three picks.

Large cap: \$50 billion and higher

Royal Bank is Canada's largest market cap at \$134 billion. It's also Canada's largest bank. Income

investors love its 3.7% yield, and now that it's moving further afield to grow its business, it should continue to maintain its position atop Canadian banks. As a foundational piece for an all-cap financial portfolio, you can't go wrong with Royal Bank.

Mid cap: \$5 billion to \$50 billion

Mid-cap stocks are my favourite. They're still very much in growth mode but are big enough to face off against the nastiest of economic headwinds. My next pick out of a group of 14 stocks has to be **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)), the insurance/private equity business run by veteran investor Prem Watsa. With a market cap of \$15 billion, it's got plenty of room to grow. Recent [acquisitions](#), such as Golf Town, also make it an up-and-comer in the world of retail.

Small cap: \$500 million to \$5 billion

Just making it into small caps with a market cap of \$548 million is **Cymbria Corporation** ([TSX:CYB](#)), a holding company that owns 36 global equities and has a 20.7% investment in EdgePoint Wealth Management Inc., a Toronto-based investment manager with \$9 billion in assets under management, including the \$794 million in the Cymbria portfolio.

These guys are loved by the financial advisor community and do a great job managing money. Since November 2008, Cymbria investors have achieved an annual return of 18%—considerably higher than the S&P/TSX 60.

Micro cap: \$50 million to \$500 million

I [wrote](#) about **Tio Networks** ([TSX:TNC](#)) back in September, and since then I've seen several fairly well-known money managers who follow the micro- and small-cap space here in Canada talk about owning its stock.

It's up 35% since my article, and I think this is only the beginning for the Vancouver digital-payments company, whose retail bill-payment network provides the unbanked the ability to easily pay their cable and mobile bills. The market is significant, and it's becoming a big player. That said, it's a micro cap and needs to be treated as such—with care.

Bottom line

If it were me, I'd equal weight all four and rebalance annually. However, for those that don't like too much risk, it's probably better to weight the portfolio 40% for Royal Bank, 30% for Fairfax, 20% for Cymbria, and 10% for Tio Networks.

It's the ultimate all-cap financial portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:FFH (Fairfax Financial Holdings Limited)

3. TSX:RY (Royal Bank of Canada)

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