



The No-Fee ETF Portfolio Beats the Pros

Description

[Qtrade Financial Group's](#) online brokerage was recently given the highest ranking of any Canadian online broker, beating out the big banks including **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), whose iTrade service came a distant second.

It turns out, you can get good service from financial institutions other than the Big Five banks in this country. That's great news, indeed. However, that's not why I'm mentioning Surviscor's 2016 survey results.

I'm here to show do-it-yourself investors how easy it is to beat the pros for less.

Step one

Go to the homepage of Qtrade Financial Group, the parent of Qtrade's online brokerage. There you will notice five services available, including "Investment Solutions." Click on that.

Step two

Here you will notice that Qtrade Financial Group, itself 70% owned by Desjardins Group, Canada's largest financial cooperative, has two mutual fund families available for investment: OceanRock and Meritas SRI Funds. Click on the Meritas Maximum Growth Portfolio.

Step three

To own this managed portfolio, it will cost you 2.58% annually. You can find out this information and other relevant fund facts by clicking on "Portfolio Information."

Step four

You will notice that the managed portfolio's target asset mix is 35% Canadian equities, 35% U.S. equities, and 30% international equities.

I picked this managed portfolio for two reasons.

First, it has no fixed-income investments. I've generally found that DIY investors are primarily interested in equities. Second, socially responsible investing has become attractive to many investors today, especially millennials.

Step five

To find out the specific funds within the managed portfolio, I've gone back to the Meritas Maximum Growth web page and clicked on "Fund Facts."

There, you will see that it owns three Meritas funds plus 0.5% in cash.

Meritas Monthly Dividend and Income Fund (35.3% weighting)

This fund invests in medium- to large-capitalization companies primarily in Canada, although it does allow for 10% foreign content.

U.S. Equity Fund (34.6% weighting)

This fund invests in medium- to large-capitalization U.S. companies only.

Meritas International Equity Fund (29.6% weighting)

This fund invests in companies outside North America.

Meritas Maximum Growth Portfolio

(Performance as of December 23, 2016)

Time PeriodTotal Return

YTD	6.6%
1-Year	5.9%
3-Year	9.6%
5-Year	12.1%

Source: *Morningstar.ca*

Step six

Qtrade Investor has 100 commission-free ETFs—you can find them in the pricing section of Qtrade Investor—that allow you to build a diversified portfolio of equity securities with no trading costs; the only fees being the management fees of the individual ETFs. For the purposes of this article, they're all Canadian-listed ETFs, but you can use U.S. listed ones as well.

Here are the three ETFs I've chosen to match as closely as possible to the investment objectives of the three Meritas funds from above and the actual weightings for each.

iShares Canadian Financial Monthly Income ETF ([TSX:FIE](#))

While I wanted to go with an S&P/TSX 60 fund, the Meritas fund provides monthly income, so the FIE is the best no-fee ETF available. It has some fixed-income and preferred shareholdings.

Horizons S&P 500 Index ETF (TSX:HKS)

This ETF invests in the S&P 500. It's not hedged to the Canadian dollar. Horizons does have a hedged version (HSH on TSX), but you'll pay a trading fee for that.

iShares International Fundamental Index ETF (TSX:CIE)

This ETF invests in the stocks of 16 companies outside the U.S. Canada has a weighting of 8.1%, approximately the same as the Meritas International fund's Canadian and U.S. weighting of 9.75%.

No-Fee ETF Portfolio

(Performance as of December 23, 2016)

Time Period	Overall			
	FIE	HKS	CIE	(Based on Meritas weightings)
YTD	21.5%	10.1%	3.3%	12.1%
1-Year	21.3%	9.0%	2.1%	11.2%
3-Year	8.4%	18.4%	6.5%	11.3%
5-Year	11.0%	21.2%	12.0%	14.8%

Source: *Morningstar.ca*

Step seven

By looking at the two tables above, you can see that the No-Fee ETF Portfolio handily beat the Meritas Maximum Growth Portfolio in every time period.

But what about the fees?

The Meritas Maximum Growth Portfolio = 2.58%

The No-Fee ETF Portfolio = 0.98% — and you get the ETFs with no trading fees.

Bottom line

Investing doesn't have to be complicated to be good, as the No-Fee Portfolio clearly demonstrates.

CATEGORY

1. Investing

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