



The 9-Stock Portfolio That Can Do No Wrong

Description

Active investing is dead.

At least that's the impression you get if you troll the internet looking for stories about passive investing. Credit Suisse analyst Michael Mauboussin and two of his colleagues recently published an excellent piece examining how investors are "rapidly shifting their investment allocations from active to passive management."

Mauboussin highlighted the fact that in the 11 months ended November 2016, active equity ETFs had outflows of US\$331 billion, while passive equity ETFs had inflows of US\$272 billion — a US\$603 billion difference. Interestingly, institutional investors have moved far more quickly to passive investing than retail investors.

In 1986, 100% of retail investors in the U.S. were invested in actively managed U.S. domestic equities; today, that's down to around 80%. In the same period, institutional investors went from 80% invested in actively managed U.S. domestic equities to 40%.

How long will it take for retail investors to catch up is anyone's guess, but here in Canada, ETFs went over \$100 billion in 2016 and most of those assets were passively invested. Change is definitely afoot.

Here at the Fool.ca we're all about helping readers become better investors. Each contributor brings their own vision of how to do that. My personal brand revolves around getting investors to think more creatively about their investments.

Let's face it; for most of the world, investing is about as exciting as watching paint dry. People like us are different. We enjoy the little details of this stock or that company. Sites like the Fool.ca wouldn't exist if it weren't the case.

But let's not kid ourselves. We're in the minority.

I believe that with the exception of real diehards, most people would love to be able to put their investment portfolios on auto-pilot and go about their daily lives.

You can by being passively active about your portfolio.

To demonstrate how easy it is, I've created a nine-stock portfolio that will do the trick for 90% of the population. Here's how it works.

Step one

You take the three largest holdings in terms of weightings from the three largest Canadian equity ETFs in terms of assets under management. Eliminating duplications between similar indexes, I've come up with these three ETFs:

- **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#))
- **iShares Dow Jones Select Dividend Index Fund** ([TSX:XDV](#))
- **BMO Low-Volatility ETF** ([TSX:ZLB](#))

Step two

Now, we need to determine the three top holdings from each ETF, but to avoid overlapping sectors, if the largest holding in the XIU is a financial stock, and so is the second-largest holding, then you make your way down the list until you come to another sector.

So, here are the three holdings from the XIU:

- **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) — Financials
- **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) — Energy
- **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) — Industrials

Step three

We do the same for the XDV and ZLB.

XDV

- **Agrium Inc.** ([TSX:AGU](#))([NYSE:AGU](#)) — Materials
- **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) — Telecommunications
- **Emera Inc.** ([TSX:EMA](#)) — Utilities

ZLB

- **Canadian REIT** ([TSX:REF.UN](#)) — Real estate
- **Dollarama Inc.** ([TSX:DOL](#)) — Consumer discretionary
- **Saputo Inc.** ([TSX:SAP](#)) — Consumer staples
- **Constellation Software Inc.** ([TSX:CSU](#)) — Information technology

You've probably noticed that I've got four companies under ZLB. That's because I would recommend that homeowners who already have enough real estate exposure substitute Canadian REIT for

Dollarama. If you don't own a home, go with Canadian REIT.

Step four

Repeat the four steps next January and rebalance as necessary. Repeat the process on a yearly or bi-yearly basis.

Bottom line

You are now passively active.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:SU (Suncor Energy Inc.)
5. TSX:BCE (BCE Inc.)
6. TSX:CNR (Canadian National Railway Company)
7. TSX:CSU (Constellation Software Inc.)
8. TSX:DOL (Dollarama Inc.)
9. TSX:EMA (Emera Incorporated)
10. TSX:RY (Royal Bank of Canada)
11. TSX:SAP (Saputo Inc.)
12. TSX:SU (Suncor Energy Inc.)
13. TSX:XDV (iShares Canadian Select Dividend Index ETF)
14. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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