3 Award-Winning Ways to a Market-Beating Portfolio

Description

The 2016 Fund Data A+ Awards were handed out January 25 in Toronto to 179 mutual funds, 35 ETFs, 46 segregated funds, and three responsible-investing funds. The two big winners: **Manulife** and **CI Financial**, who, between them, had 56 funds recognized by Fund Data.

Among the ETF winners was the **First Asset Morningstar National Bank Québec Index ETF** (TSX:QXM), a passively managed fund that tracks the performance of the Morningstar National Bank Québec Index, a collection of 61 stocks whose companies are incorporated in Canada, listed on the TSX, and have their administrative head office in the province of Quebec.

Say what you will about Quebec politics, but they do a good job churning out some amazing businesses — businesses you want to be a part of.

So, there are three ways you can play this.

First, you can buy the ETF. Morningstar gives QXM five out of five stars for its past performance; over the past three years (its five-year anniversary is February 2) its total annual return has been 11.7% — 630 basis points higher than the S&P/TSX 60.

The 61 companies that make up the index are weighted based on their free-float capitalization from biggest to smallest — they must have a free float cap of at least $150 million from all share classes and a share price of $1 or more — and capped at 5% at its two annual rebalancings in April and October.

So, if you look at QXM's top 10 holdings, you'll see that four stocks have a weighting greater than 5%. Assuming the four stocks remain above 5%, each of them will be reduced to 5% in April.

First Asset Morningstar National Bank Québec Index ETF

Top 10 holdings as of January 27, 2017

Company	Weighting	Company	Weighting

National Bank of Canada (TSX:NA)	5.96%	**Power Financial Corp.** (TSX:PWF)	4.88%
Power Corporation of Canada (TSX:POW)	5.40%	**CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB)	4.85%
Saputo Inc. (TSX:SAP)	5.18%	**BCE Inc.** (TSX:BCE)(NYSE:BCE)	4.75%
Canadian National Railway Company (TSX:CNR)(NYSE:CNI)	5.05%	**Dollarama Inc.** (TSX:DOL)	4.73%
SNC-Lavalin Group Inc. (TSX:SNC)	4.91%	**Metro, Inc.** (TSX:MRU)	4.66%

Source: First Asset Canada

The problem with buying the ETF is that you incur a commission for buying it, plus the annual management fee of 0.50%, which might not be a big deal if you couldn't buy the **iShares S&P/TSX 60 Index Fund** (TSX:XIU), an index fund that holds nine of the 10 stocks from above (Power Financial excluded) and charges a management expense ratio of 0.18% — less than half the QXM.

The second way to play this is to buy the 10 stocks above on an equal-weight basis and rebalance and reconstitute them twice a year when the fund does; the downside of doing this is, you're going to have trading commissions on all 10 stocks multiplied by two because you're buying and selling a small amount per stock.

Of the 10 stocks, I'd probably drop Power Financial because you'd have Power Corporation, and you don't miss out on some of the private equity investments the Desmarais family make outside the financial services industry.

The 11th stock by weighting? **Alimentation Couche Tard Inc.** (TSX:ATD.B), one of the best-performing Canadian stocks over the past 10 years.

It's not the ideal way to do it, but given trades are below $10 these days, you ought to be able to keep your costs around $400, or 0.4% annually on a $100,000 portfolio. However, now you're probably wondering if it's worth it given you're only paying 10 basis points more for First Asset to do it, and you get 50 more Quebec stocks to own.

The third way to play this is to change things up a little and buy the top five stocks by weighting and the bottom five, and then rebalance and reconstitute every January (or every second January for even lower costs), so if you're in a taxable account, you won't have to worry about capital gains for 16 months.

Bottom line

If you take any of these three steps, you'll likely want to buy a couple of ETFs to cover off the Big Five Canadian banks and the oil and gas sector, which have little or no representation in the QXM.

Most importantly, keep it simple.

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7. TSX:DOL (Dollarama Inc.)
8. TSX:GIB.A (CGI)
9. TSX:MRU (Metro Inc.)
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