3 “Smart Beta” Canadian Stocks That Are Worthy of a Gold Medal

Description

As you cheer for Canada at the Olympic games this week, it might also be a good idea to get your portfolio into championship shape by making some smart and calculated portfolio moves at a time when the TSX is a clear gold medal winner when it comes to value. Sure, the TSX hasn’t really gone anywhere over the last decade, but it’s really more of a glass-half-full scenario for today’s value-conscious stock pickers.

“Smart Beta” is a phrase that’s been flying around the investment world these days, with new ETFs and funds putting the strategy to use with the hopes of obtaining enhanced returns while taking on less risk versus a typical cap-weighted index fund or an actively managed fund.

But what exactly is Smart Beta? And how will Smart Beta investment products give you an advantage over other forms of passively managed ETFs or funds?

First, it’s important to have an understanding of the beta metric. It’s a measure of how volatile a particular security is, so an individual investor can better construct a portfolio in accordance with their unique risk tolerances. A higher beta value that’s greater than one means a security is more volatile and is likely riskier, but it offers more in the way of reward. The opposite is true for a security with a beta value that’s less than one.

Smart Beta is an investment strategy whereby portfolio managers follow an index that’s weighted towards stocks with certain favourable attributes.

What are these attributes?

Portfolio managers favour stocks with low beta (low volatility), positive momentum, a higher dividend, better relative value, and overall quality. Of course, these attributes, as well as their associated weightings, vary from fund to fund or ETF to ETF, but the underlying strategy remains relatively consistent and aims to provide investors with the best risk/reward trade-off possible.

How can you put this strategy to work to make your portfolio worthy of a spot at the top of the podium?

Of course, you could simply buy an ETF that puts the Smart Beta strategy to use, like with the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), which will make it easier for you to ride out the rough market terrain. Or if you're starting a portfolio, you could consider attractive Smart Beta attributes during your stock selection process.

Think low beta, high-quality value stocks with growing dividends riding a considerable amount of momentum, like **Waste Connections Inc.** (TSX:WCN)(NYSE:WCN), **Canadian Tire Corporation Limited** (TSX:CTC.A), and **Intact Financial Corporation** (TSX:IFC).

These three stocks are likely large holdings in any Canadian Smart Beta ETF, regardless of which Smart Beta trait is valued most. All three stocks have a clear upward trajectory over the long term, are reasonably priced, and have beta values well below one.

Bottom line

Smart Beta is an intriguing new strategy that's popular with new "passive" investment instruments. You can also put the strategy to use when constructing your own portfolio, but don't treat the investment strategy as gospel. Really, the only free lunch you should ever expect in the investment world is from proper diversification — the only portfolio trait that deserves a spot at the top of the podium.

The intriguing Smart Beta strategy may allow you to obtain better returns relative to the amount of risk you'll take on over the medium term, but in the long term, once the general public catches on with promising new strategies like these, they'll become less effective over time as everyone jumps on the bandwagon. Then these Smart Beta ETFs will essentially offer no substantial benefits than that of a simple market-weighted index.

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2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:IFC (Intact Financial Corporation)
4. TSX:WCN (Waste Connections)

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