Canadian DIY Investors: How to Create a “Lazy” Portfolio Using Just 3 ETFs

Description

I might be an avid investor, but I’m not a fan of stock picking. Personally, I find it time consuming, complicated, and stressful. The tedium of analyzing annual reports and following earnings calls can really add up over time. For most new investors, the thought of having to keep up with each stock in their prospective portfolio can be discouraging.

For this reason, I’m a fan of “lazy” investment portfolios using exchange-traded funds (ETFs), ones that anyone can set up within minutes, automate contributions, and spend no more than 15 minutes, four times a year managing. Keeping investing accessible, simple, and consistent is the key to success here.

Why a lazy portfolio?

For most investors, it is exceedingly difficult to consistently beat the market in the long run. Even professional fund managers often fail to outperform a simple index fund. Once you accept this, you can instead aim to match its returns with the least amount of effort and cost possible.

The goal here is to find the best ETFs that maximize exposure to the broad market and offer the lowest management expense ratios (MER). This helps reduce sources of risk that are controllable – under-diversification and high fees. Over the long term, keeping your holdings diversified and cheap will greatly enhance gains and reduce risk.

The Canadian three-fund lazy portfolio

The Canadian three-fund lazy portfolio takes literally 15 minutes to set up and another 15 minutes every quarter to re-balance. It costs 75% less in fees than a mutual fund from a financial advisor and will match the market return. It consists of three assets:

1. An all-world, excluding Canada, equity ETF covered the U.S., international developed, and international emerging markets

2. A Canadian equity market ETF covering large-, mid-, and small-cap stocks from every sector
3. A Canadian aggregate bond ETF containing both government and corporate bonds

We want to keep the Canadian portion of our portfolio overweight relative to its actual world market cap weight (3%). This is called “home country bias”. It lowers fees and taxes, reduces volatility, and hedges against currency risk.

Which ETFs to use?

My pick to track the Canadian stock market would be **Vanguard FTSE Canada All Cap Index ETF** (TSX:VCN). VCN tracks 182 of large-, mid-, and small-cap stocks at a low MER of just 0.05%. For the rest of the world, you can buy **BlackRock iShares MSCI All Country World Ex Canada Index ETF** (TSX:XAW), which contains a total of 9,440 global stocks of all market caps for a 0.22% MER.

Depending on your risk tolerance, investment objectives, and time horizon, you may want to consider adding a bond allocation to reduce volatility and drawdowns, anywhere from 20%-60%. I recommend **BMO Aggregate Bond Index ETF** (TSX:ZAG). ZAG tracks the broad investment-grade, fixed-income market by holding federal, provincial, and corporate bonds for a 0.09% MER.

How do I manage this portfolio?

Once you have purchased these three ETFs in your desired allocation, you only have two tasks:

1. Every month, deposit money into your brokerage account and purchase equal amounts of each ETF
2. At the start of every quarter, rebalance your portfolio by buying and selling shares until each asset is back to their original allocated percentage

That’s it. You must resist the urge to tinker with it by overweighting sectors, trying to time the market, or buying hot stocks. Think of your lazy portfolio as a bar of soap – the more you handle it, the more it shrinks. If you want excitement, go to the casino. Otherwise, put your investment on autopilot and enjoy life!

CATEGORY

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TICKERS GLOBAL

1. TSX:VCN (Vanguard FTSE Canada All Cap Index ETF)
2. TSX:XAW (iShares Core MSCI All Country World ex Canada Index ETF)
3. TSX:ZAG (BMO Aggregate Bond Index ETF)

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