Retirees: Replace Your Investment Portfolio With Just 1 Vanguard ETF

Description

Retirees with a large investment portfolio are primarily concerned about two things: ensuring that their portfolio sees them through retirement and mitigating the risk of a large market correction that could impact their nest egg.

The former is managed by investing in a broad-based portfolio of equities that provide sufficient stream of income, whether through dividends or by selling shares. The goal here is to achieve a “perpetual safe withdrawal rate” (usually 4%), where the portfolio will not be depleted prematurely.

The latter is managed by investing in bonds. An allocation to bonds does two things in a portfolio: it lowers volatility and reduces drawdowns. Your portfolio value will fluctuate less, and the peak-to-trough losses it incurs during a crash will be lower than a 100% stock portfolio.

Asset allocation for retirees

The goal for retirees therefore is sound risk management. We want to eliminate as many sources of risk as possible, and control the inevitable ones. Risks like high fees and underdiversification can be eliminated entirely.

The former can be reduced by buying low management expense ratio (MER) exchange-traded funds (ETFs). The MER is the percentage that is deducted from the ETF’s net asset value (NAV) over time, calculated on an annual basis. For example, an MER of 0.50% means that for every $10,000 invested, the ETF charges a fee of $50 annually. We want to keep this low — preferably under 0.30%.

Underdiversification can be controlled by buying stocks from all countries, sectors, and market caps. The goal here is to not expose ourselves to the risk that a particular one of those categories does poorly for years on end. In this case, we spread out our risk and accept the average return.

Inevitable risks generally refer to market risk. This is the risk all investors who own stocks or bonds assume. By investing, you take on risk to get potential returns. While unavoidable, we can control how much we take on. This usually comes in the form of a bond allocation as discussed earlier.

The best ETF for the role

So, our ideal investment is one that is diversified on the stock side across all countries, market caps, and sectors and that holds an appropriate amount of high-quality, investment grade bonds. It turns out you can actually achieve all this by just buying a single ticker.

Our ETF of choice is **Vanguard Conservative ETF Portfolio** (TSX:VCNS). VCNS has a 40/60 stock/bond allocation, which is perfect for retirees with a lower risk tolerance. The ETF holds 60% in over 13,000 large-, mid-, and small-cap equities across multiple sectors, and 40% in investment grade federal, provincial, municipal, and corporate bonds.

VCNS is split approximately 40% in U.S., 20% in developed markets, and 7.5% in emerging markets, with a 30% Canadian home bias to mitigate currency risk and reduce volatility. Holding VCNS will cost you a management expense ratio of 0.24% per year, or $24 per $10,000 invested.

The Foolish takeaway

Retirement should be your golden years. Keeping your retirements simple, diversified, and inexpensive is a great way of ensuring this. With asset-allocation ETFs like VCNS, managing your investments is as simple as buying and selling one ticker and reinvesting dividends. There’s no research or re-balancing needed. This allows you to focus on the things in life that matter and not on how risky your investments are.

CATEGORY

1. Investing

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1. TSX:VCNS (Vanguard Conservative ETF Portfolio)

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