ETF INSIGHTS SAMPLE NEWSLETTER

TO ALL IN ONE OR NOT ALL IN ONE?

10 PAGE NEWSLETTER

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Welcome to the third edition of the ETF Insights Newsletter.

As always, our past and current newsletters are all available via your ETF Insights account. To log in, simply head to www.stocktrades.ca, log in through the menu, and head to the "newsletter" tab.

In this month's edition, I have a topic that will likely interest every member here at ETF Insights, primarily because of the overall popularity of all-in-one ETFs.

Every fund provider has them, yet each has spins and twists on their all-in-one ETF, making them unique.

In this month's newsletter, I'm going to discuss the key differences between all of the all-in-one ETFs available to investors in Canada, along with running some backtesting that shows a slight tweak to these all-in-one ETFs has resulted in a near 0.7%+ boost to annualized returns.

The difference in all-in-one funds is more complex than you'd think

There is a common theme in the investing world regarding all-in-one ETFs: you shouldn't bother spending too much time deciding which one to buy, as they're generally all the same.

And in terms of giving investors global diversification in a single click, I tend to agree. However, the makeup of the underlying holdings among each one of these funds is very different. As investors, we must understand what we buy, no matter how "easy" the solution is marketed.

For example, any investor looking at the chart above would probably conclude that the Fidelity all-in-one ETF is the best and buy it. However, they may not understand that this is the only all-in-one ETF that includes cryptocurrency, an asset many investors may be uncomfortable owning.

Let's first dive into each one of these ETFs and go through the differences in each of them.

Fidelity All-In-One Equity ETF (FEQT)

The first and most obvious difference between the Fidelity all-in-one ETF is that it trades on the NEO Exchange. This is a non-issue despite many investors worried it doesn't trade on the TSX. The NEO is a senior exchange, and investors will have no problem buying in and out of this one.

The fund is weighted 51% to the United States and 23% to Canada. However, there are some critical differences between this fund and the others that you need to know:

The fund contains a 3% allocation to Bitcoin.

But, this isn't the only difference.

The fund utilizes what we like to call "factor ETFs," such as low-volatility and momentum ETFs. Instead of owning the broad indexes, it uses these niche ETFs to amplify returns over and above the indexes.

Thus far, the crypto exposure and the momentum ETFs are one of the main reasons it has outperformed the other all-in-one funds by a wide margin.

Because the fund contains various factor ETFs, it ultimately comes with much higher fees than the other options at 0.44%. However, thus far, the fees have been more than worth the performance, so it's wise to judge performance first, ***then*** fees.

Vanguard All-Equity ETF (TSE:VEQT)

The most notable difference between Vanguard's VEQT and the other all-in-one funds is that it contains the highest Canadian exposure inside its portfolio at 28.5%. When we look to the other options, they sit anywhere from 22-23%.

This heavy Canadian exposure is exactly why Vanguard is one of the worst-performing all-in-one ETFs of the bunch. Sure, it hasn't posted that much weaker returns, but the cause of the weaker returns is its Canadian exposure, nonetheless.

However, we mustn't get caught up on past returns when making decisions.

As you likely know, the past has nothing to do with the future. With interest rates declining, there is reason to be bullish on Canadian equities. So, Vanguard will likely be the all-in-one fund you want to own if you're particularly bullish on Canada.

iShares Core Equity ETF (TSE:XEQT)

The iShares Core Equity ETF is probably what I would call the most "vanilla" all-in-one ETF out of them all. This isn't necessarily a bad thing. I simply call it that because it does not veer off the path too much and is undoubtedly the all-in-one ETF with no surprises.

It remains relatively balanced to what most all-in-one ETFs try to accomplish. It doesn't have the crypto or momentum spin to it that FEQT does. It also doesn't have the over-allocation to Canada that VEQT does.

In addition, it also has the lowest fees out of any all-in-one ETF, although it is relatively miniscule, with a 0.02%~ annual savings over ZEQT and VEQT.

BMO All-Equity ETF (TSE:ZEQT)

The BMO All-Equity ETF would be for investors particularly bullish on the US and, even more so, the S&P 500.

This is because while most of the all-in-one ETFs have around 45% exposure to a US Total Market ETF (encompassing all US stocks, including small and mid-caps), BMO instead allocates 45% of its assets to the S&P 500 and follows that up with around 2.5% to mid-caps and 1.5% to small caps, putting its overall exposure closer to 50%, and is more top-heavy towards the S&P 500.

In particular, the fund's exposure to the US and S&P 500 has resulted in it outperforming both XEQT and VEQT. It still lags Fidelity's all-in-one option, but with the momentum factor while tech stocks soar and the cryptocurrency exposure, this isn't all that surprising.

Overall, which fund you own will be heavily dependent on what areas of the market you're particularly bullish on

If you believed that all these funds were relatively the same, you've likely had a change of heart after reading this. Each fund is unique and will no doubt react differently to different sectors and countries doing better/worse.

A simple guideline would be as follows:

For crypto and factor (low volatility, momentum, high quality) exposure: FEQT

If you're bullish on Canada: VEQT

If you want the most well-rounded fund: XEQT

If you want the highest level of S&P 500/US exposure: ZEQT

Now, let's get into some more juicy details about these funds and how just a few tweaks made within them could amplify your returns.

The splitting of all-in-one funds

When we think of these all-in-one funds exposing us to 10,000-13,000 equities, the thought of individually managing that portfolio makes our heads hurt.

However, all these funds do is pool together anywhere from 4-6 ETFs to give them that exposure. All of these funds are an "ETF of ETFs."

Because these funds simply hold other funds, we will be exposed to the fees of the underlying holdings and whatever fees the all-in-one ETF decides to charge for management.

These funds hold their own underlying funds (XEQT owns their own iShares funds, ZEQT owns their own BMO funds), so they generally don't charge much of a premium in terms

of fees. However, there is money to be saved if you decide to simply own the underlying funds of the all-in-one fund and manage it yourself.

On a 6 figure investment portfolio, you can expect to save hundreds of dollars a year by buying the underlying funds and doing routine rebalancing to keep them in check.

One must determine if the rebalancing time cost is worth the savings in fees. In addition, whether you pay commissions to buy and sell ETFs on your brokerage platform also comes into play.

Finally, one could theoretically "split" the geographical exposure between accounts to mitigate taxes, another advantage to splitting the funds.

For example, instead of buying an all-in-one fund across all accounts, one could buy the US exposure inside their RRSP to save on withholding taxes. Furthermore, if their tax-sheltered accounts are full, they could purchase Canadian exposure inside their taxable account to receive preferential tax treatment on the Canadian-eligible dividends the fund pays.

Overall, the splitting up of these funds does come with benefits. But you need to weigh your unique personal situation to figure out if they're worth it.

I'm happy to provide some insight to anyone with questions regarding this on our Q&A. Log into your ETF Insights membership and ask away!

All-in on these all-in-one ETFs, or include satellite holdings?

Make no mistake about it, these all-in-one ETFs are designed to be one-stop solutions for a diverse portfolio. However, I know plenty of investors who don't necessarily want a one-stop solution.

These all-in-one ETFs can be expected to provide investors with slightly weaker returns than the overall market. This is because it is impossible for the index funds inside of them to outperform their particular index.

For example, an S&P 500 Index ETF like ZSP cannot outperform the S&P 500 or even match the returns of the S&P 500 because of fees. If the S&P 500 returns 10%, ZSP will likely return 9.91%, accounting for its 0.09% fee.

As a result, many investors utilize all-in-one ETFs as a significant portion of their portfolio

and then build out "satellite" positions in other ETFs.

A prime example would be semiconductor ETFs. They've been prevalent over the last 18 months, and many investors want exposure for the potential outsized gains. Another example would be a utilities ETF. Many investors are starting to become bullish on utilities, primarily because interest rates are likely to continue declining, which is typically bullish for utilities.

Constructing a portfolio mainly exposed to an all-in-one ETF and then branching out into other ETFs as satellite holdings is a popular strategy many utilize. So, if you're thinking about doing this, it isn't absurd by any stretch of the imagination.

My favourite all-in-one option requires one simple tweak

At this point in time, my favourite all-in-one fund is iShares XEQT for those looking for 100% equity. However, I believe there is one core tweak in here that many members can do that could provide outsized returns relative to just owning XEQT outright.

This would require an investor to purchase the individual ETFs inside of XEQT while making one simple substitution. That is, putting a fund in like BMO's Low Volatility Canadian Equity ETF (ZLB.TO) over the iShares TSX Capped Composite ETF (TSE:XIC).

Obviously, past returns are never a guarantee of future returns. However, this strategy would have turned out an extra 0.6%~ annually in terms of performance after all fund fees have been paid.

In terms of dollar figures, this means that one would have $306,000 investing in an identical portfolio construction of XEQT in late 2013. In contrast, if someone had swapped in ZLB over XIC, they would have returns of $324,000.

Are these game-changing returns?

Not necessarily, but 0.6% a year does add up over time. If you're an investor who doesn't

mind having a bit of control over a 4-5 ETF portfolio and doing the rebalancing yourself, it is certainly an option you can explore.

Overall, these funds are great options, but don't be afraid to tweak if you want to

The passive nature of all-in-one ETFs and just ETFs in general makes investors a bit hesitant to branch out from what is deemed ordinary, especially in the face of fund managers heavily marketing all-in-one ETFs as a one-stop solution. This can make many investors second guess themselves when they want to construct a portfolio of options that best suits them.

Obviously, I do not choose how you make your investments. That is your decision and your decision alone.

However, if you want to build out a well-diversified portfolio of 5-6 ETFs, that is fine. If you're looking to build out a portfolio that consists of an all-in-one ETF with some individualized ETFs that target specific sectors you feel have promise, that is fine, too.

If you simply want to buy an all-in-one fund and get on with your life, that is also perfectly fine.

Although there are some cost savings and potential return boosts from branching outwards, these may not be worth the time to you to execute. In that case, these provide exceptional solutions for this type of investor.

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