

Nice to know about asset-allocation ETFs

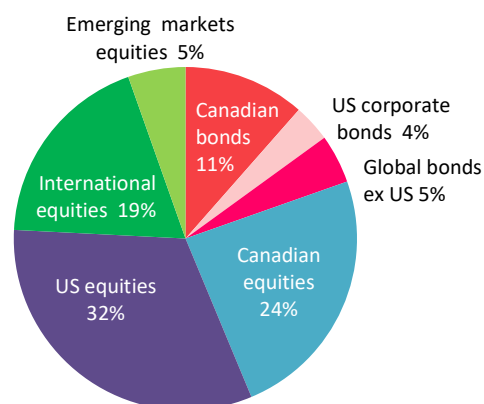
When you invest in an asset-allocation ETF, you only buy one fund, choosing the ETF that best matches your fixed income / equity asset mix.

To build asset-allocation ETFs, providers break-down the fixed income / equity asset mix further into different markets / geographical regions. For each, they buy component ETFs. Your asset-allocation ETF is really a basket of a few individual ETFs.

Let's look at one example - the growth category of asset-allocation ETFs.

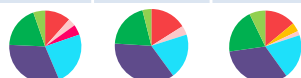
Let's say that you're interested in an asset-allocation ETF with a 'growth' asset mix - something like 25% fixed income / 75% equities. Canadian providers offer asset-allocation ETFs with a 20% fixed income / 80% equity asset mix. Close enough.

- The ETF shown in the pie chart is Vanguard's Growth ETF (ticker VGRO).
- The fixed income component (20%) consists of Canadian, US and global bonds.
- The equity component (80%) is divided among Canada, US, international (developed markets) and emerging markets. You can see the break-down in the table below, on the left.
- Each of these is represented in the asset-allocation ETF by a single-market ETF, for a total of 7 component ETF. You can see them in the table below, on the right.



	Vanguard	BlackRock	BMO
	VGRO	XGRO	ZGRO
FIXED INCOME	20%	20%	20%
Canadian bonds	12%	16%	14%
Government only	-	-	4%
US corporate	4%	4%	2%
Global ex US	5%	-	-
EQUITIES	80%	80%	80%
Canadian	24%	20%	20%
US	32%	36%	33%
International	19%	20%	20%
Emerging market	5%	4%	7%

	Vanguard	BlackRock	BMO
	VGRO	XGRO	ZGRO
FIXED INCOME	20%	20%	20%
Canadian bonds	VAB	XBB & XSH	ZAG
Government only	-	-	ZGB
US corporate	VBU (hedged)	USIG & GOVT (USD)	ZMU (hedged)
Global ex US	VBG (hedged)	-	-
EQUITIES	80%	80%	80%
Canadian	VCN	XIC	ZCN
US	VUN	IT OT (USD)	ZSP
International (ex N.America)	VIU	XEF	ZEA
Emerging market	VEE	IEMG (USD)	ZEM



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Use our table as a guide and do your own research.

On the next page, you'll learn more about the component ETFs used to build your asset-allocation ETF.

Popular bond ETFs represent the entire Canadian bond market. You'll often find the words 'universe' or 'aggregate' in the name of the index they follow (like VAB, XBB, and ZAG).

- They buy bonds issued by governments (for example, Canada, provinces, and major cities) and by Canadian companies (for example, banks, pipelines, oil & gas producers, telephone companies, grocery store chains).
- These bonds are 'investment grade'. This is a less risky part of the bond market.
- Canadian aggregate bond indices have about 70% government bonds and 30% corporate bonds. Corporate bonds in most years earn more interest than government bonds.

Some fixed income ETFs follow only a segment of the bond market. For example,

- Government bonds only (like ZGB - Canadian, and GOVT - US government bonds).
- Corporate bonds only (like VBU, USGI, and ZMU).
- Global government bonds (sometimes called 'sovereign' bonds) - issued by governments of other countries.
- Short-term bonds - their prices are less sensitive to changes in interest rates than those of longer-term bonds, but they generate less interest income (like XSH).
- Medium-term bonds - a good compromise as they produce more interest income than short-term bonds but their prices are less sensitive to changes in interest rates than long-term bonds (like ZMU).

Once you know the component ETFs, you can even look at the indexes they track (we have not shown this in our table because the differences between asset-allocation ETFs offered in Canada are so small that it doesn't make a difference).

A few ideas on how to do research

Other than the providers' websites, you can always count on a few blogs that regularly address DIY investor topics. For example,

- <https://www.milliondollarjourney.com/all-in-one-etfs-battle-vanguard-vs-ishares-vs-bmo.htm>
- <https://canadiancouchpotato.com/2018/12/24/ishares-launches-all-in-one-etf-portfolios/>
- <https://www.moneysense.ca/save/investing/etfs/all-in-one-mix-etfs-are-the-best-innovation-in-years/>
- <https://www.canadianportfoliomanagerblog.com/breaking-news-familiar-ground-ishares-asset-allocation-etfs/>