FinStart

What does a robo-advisor ETF portfolio asset mix look like?

Investment portfolios have different asset mixes - combinations of equities (stocks) and fixed income (bonds).

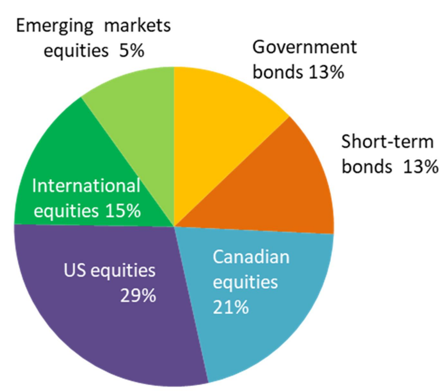
- The asset mix you choose should match your risk appetite and your investment horizon (when you'll need the money).
- Your provider will help you figure out your risk appetite and choose your asset mix. They will use a risk-appetite questionnaire.

The equity / fixed income asset mix is further broken down into 4 big categories. Robo-advisors sometimes break them down even further – their portfolios have 6-10 ETFs.

- Canadian / foreign bonds
- Canadian equities
- US equities
- International equities (this means rich countries outside Canada and the US; some portfolios may also invest in emerging markets - riskier but faster growing countries).

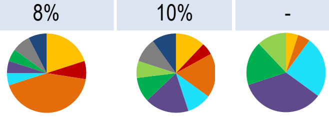
A simple robo portfolio with approximately 25% fixed income and 75% equity may look like this:

- Equities: 4 ETFs (Canada, US, international, and emerging markets).
- Fixed income: 2 ETFs (government bonds and short bonds – we explain on page 2).
- This portfolio is based on one of WealthSimple's Balanced Growth Portfolios (as of April 7, 2019). It's one of the simple robo-portfolios with only 6 ETFs.



What's inside robo-advisor ETF portfolios? A few examples – explained on the next page

	Sample robo-advisor ETF portfolios (WealthSimple)		
	Conservative	Balanced	Growth
FIXED INCOME	**70%**	**35%**	**10%**
Government	20%	12%	5%
High-yield	8%	5%	-
Short-term	43%	18%	5%
EQUITIES	**30%**	**65%**	**90%**
Canadian	5%	10%	25%
US	5%	18%	35%
International	5%	10%	18%
Emerging market	-	7%	12%
Real estate	8%	10%	-
Dividend stocks	8%	10%	-



	WealthSimple	RBC InvestEase	Nest Wealth
FIXED INCOME			
Canadian	-	RCUB	ZAG
Government	ZFM	RGGB	-
High yield	ZHY	-	-
Real return	-	-	XRB
Short term	XSH	RCSB	VSB
EQUITIES			
Canadian	XIC	RCAN	XIC
US	VTI, VUS	RUSA	XSP
International	IEFA, VEF	RINT	IEFA
Emerging market	IEMG	REEM	-
Dividend stocks	PDF	-	-
Real estate	PHR	-	VNQ

Tables updated April 2019

Other robo-advisers offer portfolios built from different ETFs.
Use our table as a guide and do your own research.

Table on the left…

It shows 3 examples of portfolios with different asset mixes from one robo-advisor.

We got these numbers from their website. If you check today, the percentages may have changed somewhat to reflect changing market conditions.

It's difficult to precisely compare robo-advisor portfolios because they use different categories of funds in their asset mixes – as you see in the table on the right.

Table on the right…

It shows how 3 different providers build their portfolios using ETFs. Here, instead of asset mix percentages, we show which ETFs are used.

ETFs are identified by their 3 to 4-letter ticker symbols (the same system that stock exchanges use to reference company shares.

Many ETFs in robo portfolios are well-known and widely traded (like XIC, ZAG, or IEFA). Others are more specialized / less popular (like PHR). Bank-owned robo-advisors (like RBC) use the bank's own ETFs.

Both tables…

You see a few new categories in the asset mix, like 'high yield' and 'real return' bonds, 'dividend stocks' and real estate. Here's what you can expect:

- When there are words like 'universe' or 'aggregate' in the name of an index fixed income ETF, the ETF follows the entire bond market (like ZAG).
    - It buys all bonds issued by the governments (for example, of 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.
    - Aggregate bond ETFs in Canada consist of about 70% of 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,
    - Canadian government bonds (like ZFM)
    - Global government bonds (sometimes called 'sovereign' bonds) - issued by governments of other countries (like RGGB)
    - High yield bonds are more risky than investment grade bonds (like ZHY). They are issued mostly mostly by US companies.
    - Short-term bonds (like XSH). Short' means bonds maturing in less than 5 years. They are less risky than long-term bonds, but they generate less interest income.
    - Real return bonds (like XRB). They protect against inflation better than regular (called 'nominal' bonds) because the interest rate they pay is from time to time adjusted for inflation.
- Some equity ETFs follow large country or regional equity markets (like VTI – the entire US market, and IEFA – all developed market countries, except US and Canada).
- Other ETFs follow only a segment of the equity market. For example, they buy only:
    - Dividend stocks - stocks of companies that pay high dividends, which allows the ETF to pay high distributions (like PDF)
    - Real estate – stocks of companies that invest in buildings, like offices and shopping malls. They are thought to be less risky than company stocks but more than bonds (like PHR).