Keep Fund Fees Low. With ETFs…

By William Baldwin, FEB 21, 2017 The Little Black Book of Billionaire Secrets

This Guy Built A Superdiversified Portfolio With 10 ETFs

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To lower your portfolio risk, own stocks and bonds across the globe and include some commodities.

Russia, that land of kleptocracy and thuggery, probably has none of your assets. You're making a mistake, says money manager Randy D. Kurtz. An optimal, well-diversified portfolio should have 0.86% there. If you have $1 million of investable assets, $8,600 would be in stocks like Gazprom.

Kurtz has a master portfolio worked out, divided among stocks, bonds and commodities and spread across 54 countries. Buy this array, he says, and you'll get a slightly lower return than you would on U.S. stocks, but you'll wind up with a lot less risk. That makes it less likely that you'll panic at the bottom of a bear market and go to cash.

The search for a global blend boils down to seeking out asset categories that are not highly correlated--that vibrate in slightly different rhythms. "Do you think Russian stocks will behave differently from U.S. stocks?" Kurtz asks. "If yes, the question is not if you should own them. It's how much you should own."

Kurtz, 42, is chief investment officer of Supernova Cos., a Chicago firm that creates model portfolios for wealth planners and also helps stockbrokers arrange portfolio-backed bank loans for their clients. He is what you might call, at least if you are a believer in index funds, a reformed sinner.

Leaving Columbia Business School with an M.B.A. in 2002, Kurtz went off to seek his fortune as a stock picker, first at a Bear Stearns fund, later on his own as a money manager for individuals. In the latter effort he set up an uncommon compensation schedule that increased his fee for beating the market and potentially eliminated it for lagging.

He made a decent living at that game for a while--he says he beat the S&P six years out of eight--but wondered just what he was accomplishing for his clients. One problem is that it's next to impossible to combine market beating and low risk in the same portfolio.

"You have only one good idea a year," he says, quoting a pronouncement Warren Buffett made at a Columbia seminar. The other problem is that, after fees and capital gain taxes, even a good money manager doesn't leave the investor with much.

Extreme Diversity

This collection of ETFs, heavy on depressed commodities and international investments, has tens of thousands of securities inside. Objective: low risk, high return.

Ticker	Exchange-traded Fund	Assets ($bil)[1]	5-year annualized return[1]	Expense ratio	Investment
BWX	SPDR Bloomberg Barclays Intl Treasury Bond	$1.5	-1.4 %	0.50 %	$130,000
EMLC	VanEck Vectors JP Morgan Emer Mkts Loc Curr Bond	2.4	-1.5	0.47	100,000
BND	Vanguard Total Bond Market	31.4	2.1	0.06	90,000
IAU	iShares Gold Trust	7.3	-5.7	0.25	110,000
DBC	PowerShares DB Commodity Tracking	2.6	-10.0	0.85	50,000
VEU	Vanguard FTSE All-World ex-U.S.	14.6	5.4	0.13	170,000
VWO	Vanguard FTSE Emerging Markets Index	43.9	1.5	0.15	140,000
VNQI	Vanguard Global ex-U.S. Real Estate	3.2	8.6	0.18	40,000
VNQ	Vanguard REIT	32.7	11.8	0.12	60,000
VTI	Vanguard Total Stock Market	69.9	14.6	0.05	110,000
	Composite Portfolio		2.5	0.25	$1,000,000

[1]As of Dec. 31.

Sources: Supernova, Morningstar

Three years ago Kurtz threw up his hands at trying to be the next Warren Buffett. He joined Supernova, a company started by college roommate and fellow disillusioned portfolio manager Tom Anderson, and set about picking countries rather than stocks.

Investors make **two very big mistakes** when they put together a portfolio, says Kurtz.

Nr 1 mistake: Home Bias

Japanese investors buy mostly Japanese stocks and U.S. investors U.S. stocks, missing the greater stability that comes from a cosmopolitan collection of assets.

"It doesn't matter where you live. You should have the best portfolio," Kurtz says.

Nr 2 mistake: What has worked in the past, will work again

Is to favor what has worked in the recent past. In 1989, people piled into Japanese equities, then sizzling. Now they love the U.S. stock market, the hot category over the past five years. They should be going the other direction. Kurtz tells U.S. investors (and Japanese investors, if they are listening) to have only a tenth of their assets in U.S. stocks.

For the equity portion of his model portfolios, Kurtz starts with country allocations determined by a blend of gross domestic product and market capitalizations. Then he tilts these stock market percentages away from expensive places like the U.S. and toward cheap ones like Russia. The tilting follows not hunches but mechanical formulas that compare market caps to earnings and GDP.

"We're not in the crystal-ball business," he says.

A 20,000 Dow is no cause for celebration at Supernova. It's a reason to pull back. U.S. stocks are going for 28 times earnings (as measured, per economist Robert Shiller, by a ten-year inflation-adjusted average). That price/earnings ratio is one full standard deviation above the historical norm. The ratio of U.S. market cap to GDP is also one standard deviation above its norm.

Contrast our market to Germany's, whose P/E of 18 and whose ratio of capitalization to GDP are close to historical averages. When Kurtz is done, BMW has a little of the money you would otherwise have put in Ford.

Now Kurtz adds, for conservative investors, a large dose of fixed income and a fair amount of commodities, even though commodities have delivered dreadful returns in the past decade. Why? Because those returns are not closely correlated with the returns on stocks.

By itself, gold is an extremely unsafe place to park money. Inside a portfolio that is mostly stocks and bonds, it adds stability.

The surprises come far away from developed markets. Kurtz would have a $1 million saver putting $3,000 into Peruvian government bonds denominated in the sketchy local currency and $900 in Colombian stocks. Yech! But if you are turned off by Latin America's history of coups, expropriations and hyperinflations, then so are other investors. So you are buying cheap.

Can't Treasury bonds be a counterweight to U.S. stocks? They can, up to a point. But don't be fooled by the 35-year bull market in U.S. stocks and bonds. If we get stagflation again, both Treasurys and blue chips will suffer. You'll wish you had stashed more money abroad.

It's not hard to implement a global mix using exchange-traded funds. The financial planners who subscribe to Supernova's portfolio service, at a fee of approximately a quarter point a year, wind up with 21 of those things. At Forbes' request, Kurtz consolidated the recommendations into ten positions.

The short list of Supernova ETFs has six Vanguard funds: **Total Stock Market (VTI)**, with an **11%** weight; **Total Bond Market (BND, 9%); REIT Index (VNQ, 6%); Global ex-U.S. Real Estate Index (VNQI, 4%); FTSE All-World ex-U.S. (VEU, 17%)**, and **FTSE Emerging Markets (VWO, 14%)**.

For developed-market bonds there’s **SPDR Bloomberg Barclays International Treasury (BWX, 13%)**; for sketchier bonds the **VanEck Vectors J.P. Morgan Emerging Markets Local Currency Bond (EMLC, 10%)**. In hard assets Kurtz has **PowerShares DB Commodity Index Tracking (DBC, 5%)** and **iShares Gold Trust (IAU, 11%)**.

The composite expense ratio is 0.25%, so if you paid someone to maintain and rebalance a portfolio like this your total cost might be half a percentage point annually.

The abbreviated Kurtz list has no TIPS; you get your inflation hedge from REITs, commodities and foreign currencies. The portfolio has three times as much allocated to foreign stocks as U.S. ones and twice as much in foreign bonds as domestic ones. It leans toward recent laggards. Indeed, had you bought it five years ago you would have earned only 2.5% a year.

But remember: You're not buying the past. You're buying the future.

Naive investors assemble portfolios the opposite way. They take money away from laggards and give it to winners. Doing that, says Kurtz, is a prescription for buying high and selling low. He cannot know, of course, that the pendulum is just now about to swing back toward better performance from commodities and foreign assets. But it will swing back at some point, and the turn becomes more likely with each upward tick in the Dow.

Obsessed with statistics--he spent a year constructing historical returns for obscure asset categories--Kurtz can quantify what diversification does.

He calculated hypothetical 25-year results for an equally weighted mix of the nine asset classes represented in the ten-fund model portfolio. He rebalanced annually so that each class had 11.1% of the portfolio.

The tutti-frutti blend would have earned 8% a year and suffered volatility, as measured by annualized standard deviation of monthly returns, of 9.8%. Had you put 100% of your money into U.S. stocks you would have landed a percentage point more of annual return but suffered considerably higher volatility, at 14.3%.

A 100% allocation to domestic equities might be fine for someone with Buffett's temperament and a very long investment horizon. It's not such a good idea for the average investor, who would have struggled to stay put during the two Dow crashes of the past quarter-century.

There are still plenty of investment managers who make their living the old way, charging a percentage point a year to pick stocks. But the world is moving in Kurtz's direction, with trillions of dollars marching out of active management and into the passive portfolios run by Vanguard, BlackRock and others.

"Asset allocation is being commoditized," says Kurtz, referring to the price war among the new crop of roboadvisors like Supernova.

"What's not commoditized is financial advice." You might still pay a handsome fee to be told when to pay off your mortgage and how much to put in your grandchildren's 529 college savings accounts, he says. But if you are paying much more than a quarter of a point for portfolio construction, ask what you're getting for it.

JUL 27, 2017 **The Little Black Book of Billionaire Secrets**

How To Keep Fund Fees Low To Increase Your Retirement Portfolio

By Craig Israelsen

The importance of keeping your investment portfolio costs low should be self-evident. They come directly out of your pocket. But you may be surprised to see how much it matters to stick with low-fee mutual funds and Exchange-Traded Funds (ETFs). I've run the numbers.

The two primary portfolio costs consist of what's known as the "expense ratio" of the funds or ETFs (the annual fee charged as a percentage of assets) and the "advisory fee "(if there is a financial adviser involved).

The average expense ratio among all mutual funds is roughly 100 basis points or 1.0% (one basis point is one hundredth of one percent). Assuming an annual advisory fee of 100 basis points, or one percent, the total portfolio cost is 2.0% (or 200 basis points). At that level, for a diversified fund portfolio with a starting balance of $1 million, the average annual withdrawal for a retiree between age 70 and 95 is about $126,426 (assuming the retiree makes the government's Required Minimum Distribution or RMD). Remember: this is an average withdrawal figure over a 25-year period; the actual RMD will vary each year based on your portfolio's performance during the prior year and each year's RMD percentage.

If the cost of funds in the portfolio is cut in half by using mutual funds or ETFs with lower expense ratios, the overall portfolio cost can be reduced from 2.0% to 1.5%. By doing so, the average annual withdrawal then increases to $136,218, meaning the retiree will have roughly $10,000 more income each year. That works out to a "raise" of about $830 per month during retirement.

The Impact of Reducing Portfolio Cost

Combinations of fund expenses and advisory fee	Total Portfolio Cost (aggregate expense ratio of funds and advisory fee)	Average Annual Withdrawal From a Retirement Portfolio Between the ages of 70 to 95* (using RMD guidelines)
Total fund expenses of 1 percent and advisory fee of 1 percent	2 percent	$126,426
Total fund expenses of .50 percent and advisory fee of 1 percent	1.50 percent	$136,218
Total fund expenses of .10 percent and advisory fee of .90 percent	1 percent	$146,853
Total fund expenses of .10 percent and advisory fee of .40 percent	.50 percent	$158,407

** Assuming a $1,000,000 starting balance at the age of 70; RMD = Required Minimum Distributions*

$32,000 More a Year in Retirement

But you can do even better. It is now possible, **by using low-cost ETFs**, to build a diversified retirement portfolio for as low as .10% (or 10 basis points). If the advisory fee were reduced by a mere 10% down to .90% (or 90 basis points), the overall portfolio cost could be lowered to 1.0%. At that level, the retiree can withdraw an average of $146,853 each year — or an additional $10,000 annually.

Finally, if the adviser lowered his or her fee to .40% and the fund expenses amounted to .10%, the total portfolio cost would be just .50%. At that level, $158,407 would be the average amount withdrawn each year.

All together, by slashing fund expense ratios from 1.0% to .10% and the advisory fee from 1% to .40%, the retiree could receive $32,000 additional annual retirement income — or roughly $2,600 more each month between the ages of 70 and 95. Clearly, the impact of portfolio costs is huge.

A Modern Diversified Portfolio

Here's how to put together a low-cost, diversified portfolio that I call the 7Twelve® portfolio. If you use low-cost, actively managed funds from various fund families, the overall fund expense can be as low as .54%. If you use ETFs from various fund families, the cost can drop to .16%. And if you use just Vanguard ETFs, the overall fund expense ratio can be as low as .10% (I have no affiliation with Vanguard; they're just an investment company specializing in keeping costs low).

The idea of building a diversified portfolio for as little as .10% is not theoretical. It is a reality and can and should be considered.

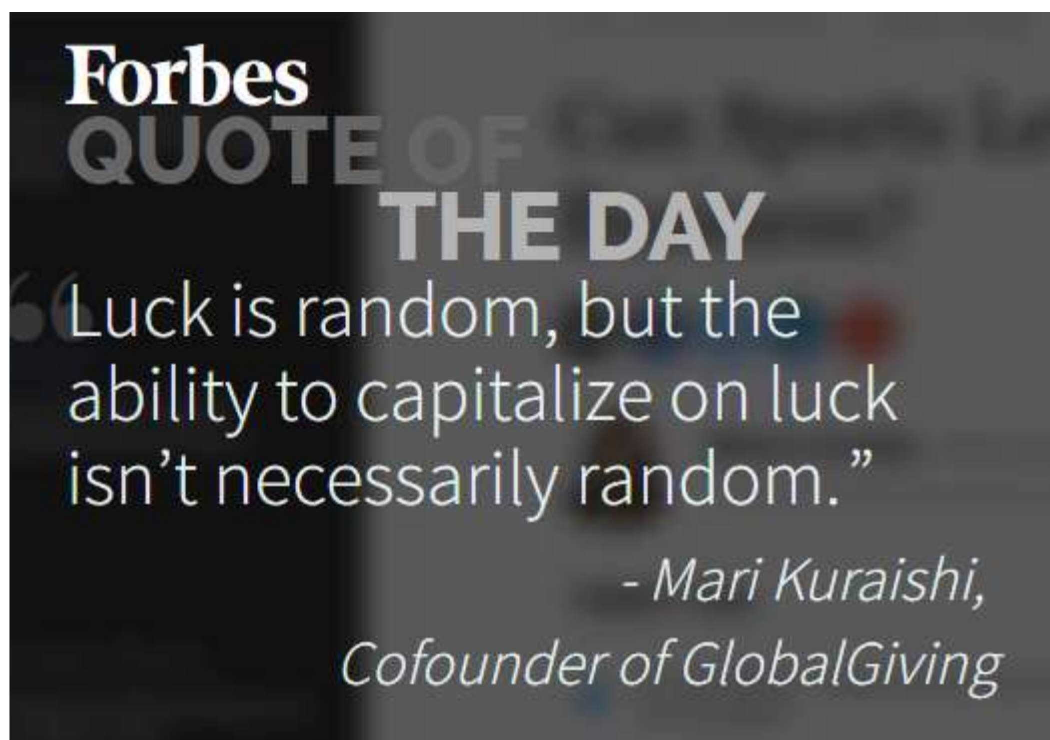
Specific Low-Cost Retirement Portfolios Using the 7Twelve Model

12-Asset Class *7Twelve®* model	12 actively managed mutual funds	12 ETFs from various fund families	12 Vanguard mutual funds	12 Vanguard ETFs	12 Fidelity mutual funds	12 ETFs available at Schwab
Portfolio Aggregate Annual Expense Ratio	.54 percent	.16 percent	.22 percent	.10 percent	.40 percent	.18 percent
15-Year Average Annualized Return (2002-2016)	7.71 percent	7.51 percent	7.88 percent	8.10 percent	8.09 percent	7.68 percent

Conclusion:

Go for a cosmopolitan portfolio and avoid the home bias. Make sure you know what the sector weightings are, to avoid cluster risk.

And yes, it is possible to build an ETF Portfolio with an expense ratio < 0.20%.



Das ETF-Portfolio voller Bankaktien?

Index-Investments wie Exchange-Traded Funds (ETF) diversifizieren das Portfolio keineswegs immer gut. Namentlich die Branchen sind sehr ungleich vertreten.

Claudia Gabrie, 24.10.2017

Sind Sie glücklich damit, wenn in Ihrem Portfolio Aktien von Banken und Versicherern stark gewichtet sind?

Mögen Sie einen Schwerpunkt in IT-Investments?

Wie halten Sie es mit den Aktien von Apple, Microsoft, Amazon, Facebook und der Google-Muttergesellschaft Alphabet?

Finden Sie diese noch anständig bewertet?

Wenn Sie eigentlich in Grossbritannien investieren wollen, erwarten Sie dann ein Schwergewicht im Bereich Energie und Tabak - und dies von Konzernen, die in Britannien nur wenig Umsatz machen?

Wenn Sie in «Europa» investieren wollen, soll dies dann zu einem Viertel in Grossbritannien sein?

Frage: Was steckt drin?

Solche Fragen sollte sich stellen, wer mit Exchange-Traded Funds (ETF)investiert. Der Regulator bevorzugt diese Anlageprodukte derzeit hüben und drüben des Atlantiks, weil sie den Ruf haben, günstige und gut diversifizierte Investments zu sein. Allerdings gibt es auch teure ETF, die auf der Beliebtheitswelle mitreiten, und vor allem: Wer in ETF investiert, muss sich kundig machen, wie ein ETF genau investiert. Sonst sei die Diversifikation der Anlagen in einem Portfolio vielleicht nicht mehr richtig gewährleistet, analysiert die französische Finanzgesellschaft CA Indosuez Wealth Management.

Diejenigen ETF, die als gut und günstig gelten, bilden normalerweise gängige Finanzmarktindizes ab. Sie investieren genau so, wie der Index aufgebaut ist. Und der Kurs der ETF-Anteile, die der Anleger erwirbt, entwickelt sich «genau so wie der Markt», will heissen, so wie der Index. Klassische Fondsmanager, die aktiv Investments auswählen, schaffen es häufig nicht, eine bessere Rendite herauszuholen - unter anderem wegen der höheren Gebühren, welche diese Fonds verlangen. Risikolos sind die ETF deswegen aber nur für ihre Anbieter: Diese laufen nämlich nicht das Risiko, dass sich die Rendite ihres Produktes schlechter entwickelt als der Index.

Dem Anleger, der ETF kauft, garantiert dies noch keineswegs immer positive Renditen - und vor allem kein ausgeglichenes Portfolio.

MSCI-Welt-Index mit 50 Prozent USA

Denn die gängigen Börsenindizes enthalten nicht immer diejenigen Aktien, die man ihnen intuitiv zuschreiben würde. Wer zum Beispiel einen ETF auf den MSCI-Welt-Aktienindex kauft, erwirbt zu 50% US-Aktien.

Mehr als 35% des Indexes machen Titel aus den Branchen Finanzen und IT aus. Die Frage ist dann, was man im Portfolio allenfalls zum MSCI-Welt-ETF dazu kaufen würde. Ein US-Aktien-ETF empfiehlt sich sicher nicht, das würde im Portfolio ein noch grösseres Übergewicht der USA schaffen.

Asien und Bankaktien in Schwellenländern

Verfällt man auf die Idee, noch etwas Schwellenländer-Titel beizumischen, und kauft Anteile eines ETF auf den MSCI Emerging Markets, so lacht man sich wieder zur Hälfte IT- und Finanzaktien an, erreicht also im Portfolio ein massives Übergewicht dieser beiden Branchen. Zudem machen China, Südkorea und Taiwan mehr als die Hälfte des MSCI Emerging Markets aus. Man kauft also zu einem Investment in den USA ein Investment in Asien dazu.

Ein Viertel Britannien im Europa-Index

Besser würde sich eine Beimischung von ETF-Anteilen auf den MSCI-Europa-Index eignen. In diesem hat allerdings Grossbritannien ein Gewicht von fast einem Viertel.

Was ist mit dem Brexit?

70% des Indexes bestehen aus Grossbritannien, Frankreich, Deutschland und der Schweiz.

Schlimmer noch: Finanzaktien machen 21% des Indexes aus. Also wiederum: Die Finanztitel wären fett gewichtet. Die letzte Bankenkrise liegt zwar zehn Jahre zurück, aber wer sagt, dass die nächste nicht folgt - oder falls nicht, dass die Banken gute Investments sind, wenn ihr Geschäft einmal wegen der Digitalisierung umgekrempelt wird?

Mischt man Anteile eines ETF auf den Euro-Stoxx 50 bei, so erwischt man damit vor allem französische und deutsche Aktien. Das bedeutet zwar eine etwas ausgeglichenere Mischung: Autoaktien, Konsumgütertitel, Industrieaktien, Energie (Total in Frankreich). So weit, so gut, wäre da nicht wiederum ein starkes Gewicht von 23% in Finanzaktien.

Der SMI mit Schlagseite

Und für Schweizer: Die Probleme des Swiss-Market-Indexes (SMI) sind mittlerweile wohlbekannt; er bestand zu 60% aus den Papieren von Nestlé, Roche und Novartis. Am vergangenen 18. September wurde das Maximalgewicht eines einzelnen Papiers künstlich auf 18% begrenzt, was allerdings an der Übergewichtssituation der drei Schwergewichte nicht viel ändert.

Und möchte jemand per ETF auf den FTSE-MIB-Index in Italien investieren, so erhält er damit nicht etwa ein Portfolio aus Luxusgüteraktien, sondern ein Gewicht von 23% in Energietiteln (Eni und Enel) und - wiederum - zu einem Viertel Bankaktien. Und das sind grösstenteils Titel von Instituten mit einem ausgesprochen schlechten Ruf.

Vorsicht vor Übergewichten der US-IT-Aktien

Und wie wäre es, liesse man den MSCI-Welt-Aktienindex weg und investierte bloss in Länder-ETF, also auch in solche auf US-Aktien? Auch das ist alles andere als ein ausgeglichenes Investment. 14% des S&P-500-Indexes bestehen aus Software-Titeln, weitere Schwergewichte sind Finanzaktien und Pharmatitel. 20% des Indexes bestehen aus den Aktien von Apple, Microsoft, Amazon, Facebook, Johnson & Johnson, Exxon Mobil, Berkshire Hathaway, JP Morgan Chase, Alphabet und General Electric. Wer sich Sorgen macht wegen der derzeit hohen Bewertung der US-Tech-Aktien (und das wäre nicht ganz grundlos), sollte nicht in den S&P 500 investieren.

Ein noch grösseres Gewicht (53%) haben die IT-Aktien im Nasdaq-100-Index, allerdings erwartet man es bei diesem eher. Wer auf eine ausgeglichenere Art und Weise in die US-Volkswirtschaft investieren möchte, für den empfiehlt sich tatsächlich ein ETF auf den oft geschmähten Dow-Jones-Industrial-Index. Dieser wird nicht nach der heute verbreiteten Methode berechnet, wonach die Firmen mit der grössten Marktkapitalisierung das grösste Gewicht haben, sondern die zugehörigen Firmen werden von den Indexanbietern von Hand ausgewählt. In diesem Index machen Industriefirmen 21% aus.

Und immer wieder: die Finanzaktien

Und wie kommt es zu dem globalen Übergewicht der Finanzaktien in den allermeisten Indizes und der IT-Aktien in einigen? Indosuez verweist darauf, dass die Anzahl der kotierten Firmen am Sinken sei. In den USA zum Beispiel, dem angeblichen Paradies von Unternehmertum und Kapitalismus, seien heute nur noch halb so viele Firmen börsenkotiert wie in den siebziger Jahren. Der Grund dafür seien die hohen regulatorischen Anforderungen, die Firmen erfüllen müssten, wollten sie ihre Aktien am öffentlichen Markt handeln lassen.