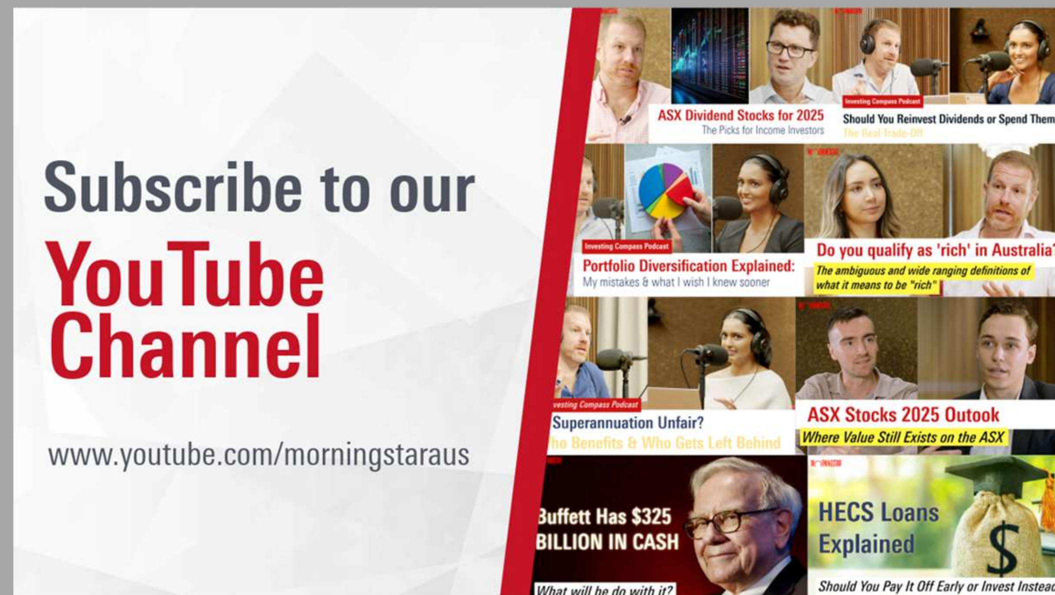

Available on Apple Podcasts, Spotify and Podcast Addict

The webinar will begin shortly

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Morningstar retirement bootcamp

Webinar 1 - Everything you wanted to know about ETFs and were scared to ask

Webinar 2 - Traditional passive ETFs

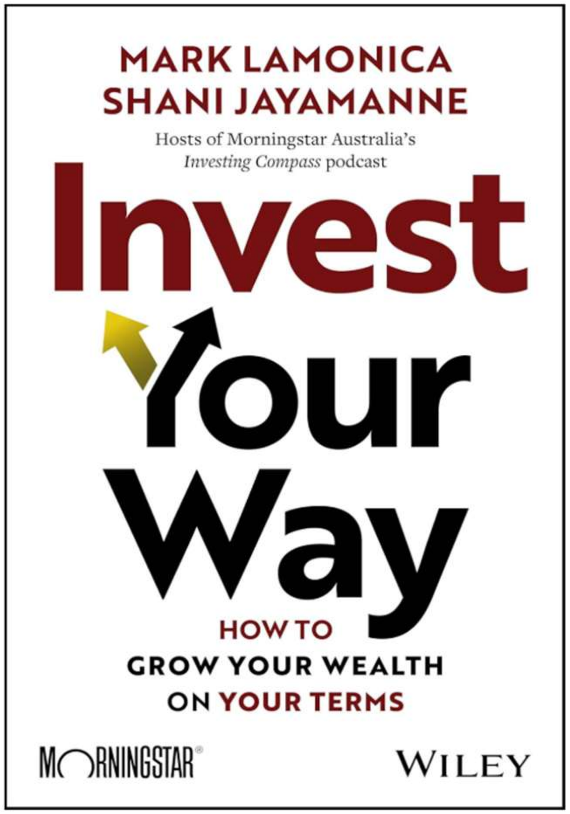
Webinar 3 - Thematic and factor ETFs

Webinar 4 – Building an ETF portfolio

Learning objectives

1. Understand the process of building a portfolio

Getting the foundations right



- The biggest issue many investors face is undermining their own outcomes by letting emotions influence decision making and making mistakes
- ETFs exacerbate these tendencies given the ease of trading, the proliferation of new ETFs and compelling marketing based on recent performance
- The key is adding structure to decision making by establishing goals, setting an investment strategy and developing a process to guide decision making

What is a portfolio?

A portfolio is a carefully selected group of assets that are managed together to achieve a specific goal.

Therefore, to create a portfolio you need to understand what you are trying to accomplish and the specific role each asset plays in the portfolio.

Why do we define goals?

Setting goals allows us to focus on ***risk capacity*** as opposed to ***risk tolerance*** and acknowledges that the point of investing is to achieve something tangible.

- A risk tolerance assumes the biggest risk in investing is volatility. Morningstar believes the real risk is not achieving your goal.
- Many people do not have stability in their perception of risk as market conditions evolve. In these cases, the so-called ‘behavioural’ benefits of a risk tolerance approach don’t materialise.
- Humans have difficulty assessing how they will react during stressful situations.

☑ Risk capacity is the amount of risk that an investor needs to take on to achieve a goal

☑ Risk tolerance is the amount of risk an investor is comfortable taking

How to define goals

1. How much will your goal cost? (remember inflation!)
2. When do you want to achieve your goal?
3. How much have you saved for your goal?
4. How much can you save in the future for your goal?

Answering these four questions allows you to calculate the return needed to achieve your goal

Perfection is the enemy of progress. The specifics of your goals can be adjusted over time. Even a high-level estimate will get you thinking about the trade-offs inherent in investing.

What does your goal tell you?

Goal component	How this informs your portfolio	Why this is important
Required rate of return	Informs asset allocation	Asset allocation is the largest driver of long-term returns
When you want to achieve your goal	Denotes if volatility is a concern	A trade-off is often required between volatility and the level of expected long-term returns

Use your goal and the parameters for success into a high-level investment strategy that defines success and how will you will achieve it

Principles for building a portfolio

Much of the focus on building a portfolio centres around how many ETFs you should hold. There is no correct answer as it is dependent on the goals, temperament, knowledge and desired effort of each investor. Instead, investors should consider the following principles:

- **Get your asset allocation right:** Asset allocation is by far the biggest driver of long-term returns and if you don't get the right mix of growth & defensive assets you won't achieve your desired return over the long-term
- **There is a benefit from simplicity:** If your portfolio is simple, you are less likely to constantly check and adjust it which generally leads to worse outcomes. A portfolio could be as simple as a single or handful of ETFs.
- **You don't need to own everything:** Diversification does not mean owning every asset class and sector. Remove single security risk and concentrated exposures but only own investments aligned to your goals that you understand.
- **Beware of overlap:** Overlapping ETFs can result in concentration risk / the illusion of diversification, an overly complex portfolio and additional fees.

Core / satellite portfolio

A popular approach for investors is a core / satellite portfolio.

Core: This is the foundation of the portfolio and traditionally is a passive approach but could also be aligned with the specific goals of an investor – examples include income, low volatility, etc. The core is intended to do most of the heavy lifting.

Satellite: The satellite offers the opportunity to tilt a portfolio in a certain direction to achieve a desired outcome. For instance, a passive core could be tilted in a way designed to outperform the overall market. Each part of the satellite should have specific purpose.

Potential challenges to this strategy:

- Over time the satellite becomes the portfolio through a lack or rebalancing or investor overconfidence / performance chasing
- The core and satellite start to overlap if the passive portion of the portfolio becomes overly concentrated in a certain theme
- The satellite portion is used for speculative behaviour which increases behavioural risk