



Di Iorio Family Wealth of RBC Dominion Securities

Think bigger. Act bolder. Invest better.

The Benefits of a Passive Core

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As we mentioned in our last blog post – we have recently undertaken some of the more significant changes to our portfolio management approach in some time. While we have always believed in having a stable “core” of our portfolios, which makes longer-term allocations to more broad areas of the market, we have now altered our approach toward achieving this.

Our portfolio models now all include a more “passive” sleeve, dedicated towards capturing market-returns in the most efficient way possible. This sleeve continues to be complemented with our own active management surrounding it, with the overall goal being to create a more efficient way of generating returns over time.

We decided to dedicate this blog post to outlining some of the advantages we see this new approach having:

1. Tax efficiency

By maintaining a long-term allocation to the broad market with core sleeve within our portfolios, overall levels of turnover will be reduced. This is due to the fact that over time there will be very limited need to alter the positioning of this segment of the portfolio, as an ETF investing in the broad market benefits from automatic diversification and rebalancing – leading us to advantage #2.

2. Diversification

While we have achieved plenty of success with our approach to investing over time, as with any style, there have been various periods where our portfolios have outperformed or underperformed the market. While this will always be the case, we felt that there was an

opportunity to limit the magnitude of divergences between the overall market and our portfolios, without sacrificing expected returns. By allocating a tranche of the portfolio to the broad market, we will have exposure to areas which may not usually be our focus. During periods where more “growth-oriented” areas of the market may be out of favour (ex. most of calendar 2021), we will have exposure to other more in-favour areas as well.

3. Reduced costs

One of the main sources of funds put towards the building of our passive sleeve were the allocations we had made to various actively managed funds. Though we reviewed these managers often to ensure their performance was in-line or ahead of what we expected, we felt the aforementioned benefits of this transition outweighed the potential added value we could hope to achieve from these funds. In making this transition, another benefit was therefore the fact that we were replacing higher embedded-cost mutual funds with the near negligible costs of passive ETFs.

Overall, we feel that these changes are in-line with our beliefs, as well as our focus on maximizing efficiency. We have written many times about focusing our portfolios to benefit from generational trends and companies, and the markets have an inherent function of doing exactly this. The success of the companies which best leverage these generational trends will organically lead to them becoming the largest constituents of the market. We believe that combining this mega-trend with our own individual selections will lead to extremely positive results.

For some additional insight into the theory behind passive investing, and why it proves successful over time, we would recommend checking out one of our favorite books – A Random Walk Down Wall Street by Burton Gordon Malkiel. A recent re-read of this served as one of the motivating factors for this evolution in our portfolios.

As always, thanks for reading.
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