A suggestion of a passive portfolio, using NZX´s ETFs

Focused on the long term. For the agressive investor.

AN ETF-BASED PASSIVE PORTFOLIO FOR THE AGRESSIVE INVESTOR:

25% in Emerging Markets Equities

Shareholder of several companies from countries such as South Korea, China, Mexico and Russia.

Selected asset: NZX´s Smartshares Emerging Markets Equities ESG ETF (EMG).

Justification: NZX´s ETF that is designed to track the return on the MSCI EM IMI ESG Screened Index. Fee: 0.59% per year.

25% in Australian Equities

Shareholder of shares from Australia´s 200 largest companies.

Selected asset: NZX´s Smartshares S&P/ASX 200 ETF (AUS).

Justification: Low fee (0.30% per year) NZX´s ETF that is designed to track the return on the S&P/ASX 200 Index (in NZD).

25% in Developed Markets Equities

Shareholder of companies from countries such as United States, Japan, UK, Germany, etc.

Selected asset: NZX´s Smartshares Global Equities ESG ETF (ESG).

Justification: ETF that is designed to track the return on the MSCI World ESG Screened Index. Fee: 0.54% per year.

33.6% in New Zealand Equities

Shareholder of New Zealand´s 50 largest companies.

Selected asset: NZX´s Smartshares S&P/NZX 50 ETF (NZG).

Justification: Low fee (0.20% per year) NZX´s ETF that is designed to track the return on the S&P/NZX 50 Index.

STEPS TO IMPLEMENT THE PASSIVE STRATEGY?

Step 1: Objectives and portfolio

- Based on your investment goals (for example, an average return of 1% per month), **build a portfolio with ETFs (or other financial assets) that have the (statistical*) capability to achieve these goals.**

*Learn which ETFs have confidence intervals that contemplate, for example, a return of 1% per month, on average, over the long term.

Step 2: Stay invested

- **Contribute regularly to your portfolio, using the broker of your choice.**

Starting from scratch and investing $1,000 per month, with an average return of 1% per month, it is possible to reach one million by the end of 20 years.

- **Rebalance*** (whenever necessary).

*For example, put your next contribution in the financial asset (i.e ETF) with the lowest current balance. This way, you will always "buy cheap", one of the "golden rules" of investing.

Step 3: Time and opportunities

- Do not panic in crises or negative news: **seize opportunities and take advantages from market conditions/cycles**.

- **Wait for the time to act**, protecting and monetizing your capital in the long run.

WHAT ARE ETFs AND WHAT ARE THE ADVANTAGES?

Passive investing strategy:

- It is an investment strategy, generally **focussed on the long term, where the aim is to obtain the same average return as the main stock market indexes**, such as the S&P 500 or the NZX 50.
- It is implemented via index funds (also called ETFs) that present greater diversification (and consequently less risk) than isolated assets such as a single company share.
- This strategy requires less effort (and knowledge) to follow up, as it avoids unnecessary *buys and sells* and tends to present returns similar to active investment management in the long run, but with less risk and lower administration fees.

Exchange traded funds:

- ETF (Exchange Traded Fund) is a financial asset traded on the stock exchange. **It consists of several financial assets from the same assets class and seeks to replicate the performance of a given index, either fixed income or variable income.**
- ETFs are used on a large scale in the passive investment strategy as they are diversified and have lower management fees.
- In New Zealand, ETFs are not capital gain taxed and some of them do not pay dividends as dividends are reinvested in their own units.
- Advantages of ETFs for investors:
  - Greater simplicity.
  - Lower administration fees.
  - Lower risk.
  - Profitability in line with the market.
  - Low need for follow-up (or portfolio rotation).

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