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## ROB CARRICK: How balanced ETFs are rewiring investor brains – for better, and for worse

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No investment product has done more good in the past 20 or so years than the balanced ETF.

Investors are pouring money into these exchange-traded funds because they take the guesswork out of building a portfolio. Balanced ETFs, also called asset allocation ETFs, come in a bunch of different mixes of stocks and bonds. Pick the one that suits your needs, add money when you can and let the markets do their work of creating long-term wealth.

I've never seen a product engage investors like balanced ETFs, particularly retirees. The questions I'm getting from readers suggest investors are thinking in depth about how these products are constructed and how suitable they are in today's investing environment.

There may be some overthinking going on, though. A lot of investors I've heard from like the idea of balanced ETFs, but not the fact that most of them have a substantial weighting in bonds.

In a recent column, I discussed the case of a reader on the edge of retirement who was looking at balanced ETFs with an 80-20 mix of stocks and bonds and wondering if that was too tame in a world of ultra low interest rates. My answer, a flat no, prompted another question from someone else near retirement who wondered about an all-equity asset allocation ETF (offers exposure to stocks from around the world).

"What about having everything in [an all-stocks balanced ETF], but with four to five years worth of needed income during retirement set aside in guaranteed investment certificates?" this person asked.

For the right sort of investor, that could work. I'm thinking of someone who is experienced enough with investing that they can watch a portfolio plunge 20 or 30 per cent and not be tempted to sell in a panic because they have GICs as a backstop.

The GICs are a practical way to avoid having to sell hard-hit stocks to provide retirement income. But they don't address the sense of dread people feel when their investments are plunging in value. For that, you need bonds. When stocks sink, they float.

A couple of alternatives for the investor who chafes at bonds in a balanced ETF: Look for a balanced ETF with a 70-30 mix of stocks and bonds, or pick a suitable balanced ETF and add a complement to juice the bond yield. Maybe an ETF holding long-term bonds, corporate bonds (investment grade or high yield) or emerging market bonds.

The all-stocks approach looks rational now, but most investors will regret it on the first day of the next bear market.

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