ETFGlobal®

Model Portfolio Update

1Q 2018 Rebalance – ETF Global® Dynamic Model Portfolios

Tuesday, January 2, 2018

“Out with the old, in with the new” may be the unofficial mantra of every New Year’s Eve celebration, but investors might be hoping for an instant replay as far as their portfolios are concerned. After all, they got an early Christmas present in the guise of tax reform which was a perfect way to cap twelve straight months of positive gains (and of course new highs) for stocks. Big shoes to fill indeed.

The new year is also the start of another quarter which includes an update to the ETFG Dynamic Model Portfolios. All 4 of the Base portfolios and the 8 “Tilts” rebalanced on Tuesday, January 2nd and while 2017 might have been a low volatility snooze fest, there have been significant changes to the allocations for 1Q 2018.

Out with the old was also the mantra of our ETFG Quant Model with 3 fund replacements in the domestic sleeve of the portfolios this quarter and while it continues to favor both Small Cap and factor-based funds, there has been a significant shift in its underlying makeup. The sole survivor from last quarter was the Direxion NASDAQ 100 Equal Weighted Fund (QQQE) a solid performer that remains in the top position followed by SPDR Portfolio Small Cap (SPSM), JPMorgan Diversified Return U.S. Small Cap Equity (JPSE) and iShares Edge MSCI Multifactor USA (LRGF). Leaving the allocation are the VictoryShares US Small Cap High Dividend Volatility Weighted Fund (CSB), the Guggenheim S&P Smallcap 600 Pure Value ETF (RZV) and the JP Morgan Diversified Return U.S. Mid Cap Equity ETF (JPME.)

The replacement of CSB and RZV with two other core-Small Cap funds means the model portfolios retain significant exposure to smaller stocks but shifts that exposure to more core and growth oriented names at the expense of value stocks. Helping this trend is the addition of LRGF, which as the ticker implies has a more Large-Cap focus than its Mid-Cap oriented predecessor, JPME.

Changes to the Developed International sleeve were more modest with 2 products that continued into the new allocations and 2 new funds being added to the lineup.

The model continues to favor single-country exposure although with a decidedly Asian flair as the iShares MSCI Singapore Capped ETF (EWS) replaces the iShares MSCI Spain Capped (EWP) with the iShares MSCI South Korea Capped (EWY) fund staying in the portfolio. Tensions over Catalonia may have cooled in the short-term but the long-term outcome is harder to see which has depressed EWP's price momentum, but not to the point where a rebound might be imminent.

The model also favors factor funds with the iShares Edge MSCI Multifactor International ETF (INTF) holding onto the top position where it is joined by the PowerShares FTSE International Low Beta Equal Weight (IDLB) which replaces the VanEck Vectors Morningstar International Moat ETF (MOTI.) IBLD and MOTI are both considered large cap funds, although the similarities end there. MOTI has fewer holdings and focuses on companies with well-established brands while IBLD has a more Asian orientation and relies on the "low volatility" phenomenon to deliver its risk-adjusted returns.

Finally, the Goldman Sachs ActiveBeta Emerging Markets Equity (GEM) replaced the Franklin LibertyQ Emerging Markets (FLQE) ETF as the primary diversified Emerging Markets product. Both funds rely on multifactor models with the major difference being that GEM currently has a larger average market cap, as well as, larger exposure to mainland China.

You can find an overview and performance information for the ETF Global Dynamic Model Portfolios at http://www.etfg.com/about-model-portfolios