LANCE SOLMS
Head: Itransact

Which ETFs do I choose?

With over 60 ETFs to choose from, selecting the correct ETFs that will reduce risks, cut costs and still provide attractive returns can be a difficult, if not impossible, task.

The Itransact Investment Platform solved this task seven years ago, by offering financial advisers a range of multi-managed risk-adjusted ETF portfolios. Lance Solms, head of Itransact, says, "We knew that the ETF market would become popular with advisers and investors, creating the challenge of which ETFs to pick."

Judging by its track record, it seems Itransact has got it right! Their recipe is quite simple, explains Solms.

ETF selection

"We first make sure that the ETFs selected are collective investment schemes, ensuring investors capital is protected against the unlikely event of insolvency from an ETF issuer," he says.

"We then disqualify all ETFs that use so-called smart beta, active or multifactor methods. These are not ETFs. They are mostly 'dressed-up' ETFs that attempt to 'behave' like active managers or stock pickers and are best suited to be bought as single funds.

"We therefore only use unpolluted low-cost 'vanilla' ETFs as our building blocks. These ETFs provide us with broad, well-diversified exposure to a market. Each portfolio is designed to tolerate the failure of a stock or two within the ETF itself, with little impact on the overall portfolio.

"Using plain vanilla ETFs also averages out the price behaviour signal we are looking for, as their performance is the average of many stocks, tracking a specific asset class, making the ETF price return behaviour more predictable. Dressed-up ETFs are not as predictable as they add unwanted risks and cost more."

Asset allocation

Itransact takes the historical price and total return series (net of its Total Expense Ratio) of each and every ETF in the market and process that in a tried and tested propriety algorithm that shows how ETFs behave in terms of producing a market view.

"From this process, we derive no more than 10 ETFs that are well diversified from one another and efficiently track both domestic and offshore equity, real estate, bonds and money markets," Solms says. "We now need only select the lowest-risk, highest-return ETFs to represent each asset class according to the chosen risk bands that govern each portfolio range and allocate the capital by portfolio contents and risk weightings."

Portfolio returns (Up to 31 July 2019)

Note that TERs of all portfolios are under 0.50% per annum including VAT, making them very low cost.

DISCRETIONARY	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year
Conservative	6.97	6.73	5.77	5.74	5.91	–	–
Cautious	6.32	5.62	4.35	5.48	5.89	6.81	6.98
Moderate*	8.20	7.00	5.40	6.65	7.49	8.39	8.77
Growth	5.80	6.41	5.46	5.62	6.82	8.75	9.39
International	8.45	12.87	9.47	10.12	10.32	10.75	–
REGULATION 28	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**6 Year**	**7 Year**
Conservative	6.50	5.88	4.53	5.07	6.91	8.04	–
Cautious	6.16	3.99	3.54	4.80	6.13	6.14	–
Moderate	6.89	3.81	2.97	5.05	6.40	6.67	–
Growth	4.86	4.00	3.67	4.98	6.78	7.75	–

**Flagship product. Ter of 0.47%*
Source: Index Solutions 2019