



AgileInvesting Uses ETFs For Model Portfolios

By TARA SIEGEL BERNARD
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NEW YORK -- J.D. Steinhilber takes an active approach to passive investing.

He crafts model investment portfolios of exchange-traded funds - the increasingly popular vehicles that resemble index-tracking mutual funds but trade like stocks - using tactical asset allocation. In other words, he varies the level of exposure to different slices of the market - whether it be large-capitalization stocks or international shares - based on a valuation analysis of each asset class, the economic and interest-rate environment, and earnings, among other factors.

"It's an active approach to asset allocation, while also recognizing it's dangerous to be too active," says Steinhilber, founder of AgileInvesting.com, an investment-advisory subscription service that provides his portfolio recommendations. "It's important to remain diversified at all times and have asset classes that are balancing each other out and that are negatively correlated."

Steinhilber - who also started managing client assets last year instead of just advising them - is attracted to ETFs for the same reasons many other retail investors have taken notice: they are easily traded and inexpensive, and you know exactly what is inside - unlike their traditional mutual-fund cousins. They are also significantly more tax efficient than actively managed mutual funds, though investors must pay brokerage commissions each time they buy or sell ETFs.

Agile offers three portfolio categories which, on average, are comprised of about 10 positions: conservative growth, composed of 60% stocks and 40% fixed income; moderate growth, which has 75% allocated to equities and 25% to bonds; and aggressive growth, which is 90% stocks and 10% bonds. As for performance, the conservative growth portfolio has posted a three-year annualized return of 5.9%, moderate growth has yielded 7.5%, and aggressive growth has climbed 9.4%, according to Steinhilber.

Each portfolio type invests in four broad asset classes, including U.S. stocks, international stocks, fixed-income and alternative investments, which may include diversified commodities, precious metals, real estate investment trusts and high-yield bonds. The broad categories are subdivided into a total of about 33 more-specific asset classes, ranging from large, small and mid-capitalization growth stocks to emerging markets, financials and diversified bonds. While the portfolios are constructed primarily of ETFs, in cases where there isn't an ETF available for a specific asset class, Steinhilber resorts to traditional mutual funds to fill the gaps.

Recent Shifts - Adds Commodities, Dumps Small Caps

Steinhilber eliminated small-cap stocks from his model portfolios in December - iShares S&P SmallCap 600/BARRA Growth (IJT) - because after five years of outperformance, he believes they have become expensive compared with other segments of the market. Moreover, they tend to be more vulnerable than large caps to rising rates. "I am taking a bit of a controversial position by not having them, because over time, small caps have historically earned a premium return to large caps," he added. "But I think the risk reward is poor there."

Commodities tend to do well during periods of rising inflation, and, as such, Steinhilber added a position early last month in a diversified commodities index fund - the Pimco Commodity Real Return Fund (PCRD) - since there is no comparable ETF. He also has a position in streetTRACKS Gold Shares (GLD).

"I also tilted the large-cap U.S. equity component of the portfolio towards growth in the fourth quarter by adding the S&P 500 BARRA Growth fund," he said, referring to the iShares S&P 500/BARRA Growth Index Fund (IVW). "My valuation analysis shows that growth has become undervalued versus value."

His portfolios - depending on the risk profile - also have positions in large-cap blend, mid-cap blend, health-care and industrial-sector ETFs, as well as an exposure to "developed markets" through the iShares MSCI EAFE Index Fund (EFA) and in emerging markets through the iShares MSCI Emerging Markets Index Fund (EEM). He also likes Japan, where he has a 5% position across all of his portfolios, through the iShares MSCI Japan Index fund (EWJ).

On the fixed-income front, he has exposures to iShares Lehman 1-3 Year Treasury Bond fund (SHY) and the iShares Lehman Aggregate Bond fund (AGG).

Agile Investments, the management arm, which has an investment minimum of \$200,000, charges 0.60% of assets for smaller portfolios; prices bottom out at 0.30% of assets for portfolios north of \$1 million. Meanwhile, the subscription service costs \$250 annually.

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