From: Dimensional
Sent: December 9, 2016.
Subject: Permanent Alert – Heads Up Real Return Bonds (TSX:XRB)

As much as I don't like to touch the fixed income portion of my portfolio, the price behaviour of the real return bond ETF in the past few months especially when it is intended to be the wild card diversifier in the fixed income portion of our portfolios with a duration of 15 compared to 3 and under for the laddered ETFs CBO, CLF and BXF. That means it is far more volatile and has the potential to fall much more when rates rise from their historic lows. What I am looking to do is reduce my exposure to TSX:XRB by 75% making its equivalent weighted duration in the fixed income portion to almost the same as the other laddered ETFs.

Keep in mind, half of the fixed income side of the portfolio has already been allocated to high interest savings for a few years in anticipation of flat to increased interest rates, so the allocation to all ETF fixed income ETFs has been reduced by half anyway. This is an extra precaution.

An example: Assume your targeted allocation to XRB before any adjustments is 16.25% of your entire portfolio of both equities and fixed income. With the past 50% downward adjustment and allocation to interest savings accounts, XRB would now be half of that or 8.125%. What I am doing is reducing it by another 75% to 2.06% of the portfolio.

I am hoping for a rally toward $25 - $25.50 to sell into as it is oversold, but your guess on short term price movements is as good as mine and it could continue falling. Here is its 5 year weekly price chart.

Source: Chart created in BigCharts

When looking for a place to park the proceeds, remember as I mentioned in the last paragraph on page 12 of the report that I sent out on Sunday, a 1 to 2 year ladder of GICs staggered at 3-6 month intervals depending on the rate advantage over high interest savings would be a good place. I like the second tactic I presented because it is easier to control the staggered maturities.

"Alternatively, one can allocate a fixed amount of cash every two to three months to two year GICs so that in two years' time one would have a GIC maturing every few months and then one can decide what maturity intervals make the most sense in that interest rate environment. Remember to make sure your GICs qualify for CDIC protection per institution per account. It is trickier than it first appears to be. See this video. "

Fred

NOTE

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