UNWIND AN OVER-CONCENTRATED PORTFOLIO

BY EVELYN JUAN, A TORONTO-BASED FINANCIAL WRITER

What happens when clients own too much of one thing

CANADIANS LIKE TO BUY LOCAL with their investments, tending toward names they're familiar with.

The downside is that the TSX is comprised largely of resource and financial firms, leading some investors to end up with heavily concentrated portfolios.

For others, the concentration is through no fault of their own—it's part of their compensation, and they're looking for ways to get out without taking a tax hit.

We took a look at three archetypal investors caught in this situation, and asked three advisors to offer solutions.

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Samantha is a 44-year-old information technology professional with a penchant for DIY investing. She's married to Reeve, a graphic designer, and they live in Montreal. The couple started trading stocks through an online brokerage account 15 years ago. However, their only investments are now banking and resource companies. How can this pair deal with their portfolio?

TINA TEHRANCHIAN
branch manager and senior financial planner at
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A lot of DIY investors are only familiar with the Canadian market, so their portfolios usually lack diversification. That's the situation in this case.

If Samantha and her husband both want to stay DIY, they should look into ETFs that would give them exposure to global markets without them having to look into the individual stocks.

It's difficult for self-directed investors to follow stocks in different countries under different economic and political conditions, so a broad-based ETF will allow them to diversify out of the resource and banking sectors. It could be as broad as the MSCI World Index, or they could choose regional indices. They need exposure to the U.S., Europe, Japan and emerging markets.

If they don't want to sell existing holdings (for tax reasons, or the fact that the stocks are doing well), they should at least choose global-oriented ETFs for future purchases. Sectors that are anti-cyclical to financial and resource industries include pharmaceutical and technology, which are under-represented in the Canadian market.

They need to be careful, tax-wise. Holding banking stocks for 15 years means they've likely accumulated a lot of capital gains. While they can't avoid that hit, they should be as tax-efficient as possible for new investments. If they have RRSP room, making contributions will reduce their taxable income. They can also look at global corporate-class mutual funds, where they can switch from one fund to another without being hit by capital gains taxes.