December 2022

VF Wealth

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MSCI World

The Whole World in One ETF

The MSCI World Index is undoubtedly the most well-known ETF index worldwide. Billions of euros and dollars are invested here. Simply put, the MSCI World Index represents approximately 1,600 stocks globally. Emphasis is placed on the companies originating from the so-called developed countries.

The USA dominates the ETF!

A common criticism of the MSCI World Index is that the USA currently accounts for about 70 percent of its weight. This value can fluctuate but generally remains in the range of 65 to 75 percent. This is because the American stock market is so large on a global scale that it occupies a correspondingly high proportion of the global market capitalization. This is not necessarily a mistake, as the US market has significantly contributed to the good performance of the MSCI World over the past decades.

Built-In Cleansing Function!

A particular advantage of the MSCI World Index is that it can, metaphorically speaking, "self-cleanse". Incidentally, this is an inherent advantage of all ETFs that do not focus on niches, sectors, or other small areas of the financial market. For example, if the USA were to lose its market dominance in the coming years and another country became the new global powerhouse, the country weighting within the MSCI World Index would automatically change. The share of the USA would decrease, and that of another country or group of countries would automatically increase. For the investor, this means that they don't need to do anything; the ETF automatically focuses on the best industrial countries of tomorrow.

Why I Buy the MSCI World!

The MSCI World ETF allows for the simple representation of many stocks and markets. However, I find the sole focus on stocks from industrialized countries insufficient. I want to diversify my long-term portfolio more broadly, which is why I also mix in other ETFs. In short, the MSCI World ETF is the perfect starting point for beginning investment. However, it has a few weaknesses in the form of uncovered markets and asset classes, which is why it should be supplemented – which I also do.

MSCI World in USD (5 years)

Weight:	ISIN:	Ticker:
20%	IE00B4L5Y983	IWDA
	US4642863926	URTH

MSCI Emerging Markets

The Emerging Countries of Tomorrow

Emerging Markets are a very special asset class with which I came into contact for the first time at the tender age of 17. At that time, the beginning of the great stock market boom in emerging markets and commodities was just emerging. The rally ended shortly after the major financial crisis when the US dollar strengthened again, absorbing capital from the Emerging Markets. This led to a corresponding underperformance and a declining investor interest.

The Growth of Tomorrow!

The beginning of the 2030s decade is expected to lead to a rally in Emerging Markets stocks. The reason: The growth of tomorrow is currently found in emerging markets. A growing middle class is forming in Asia, Latin America, and to some extent in Africa. The dominance on the world stage of the BRICS countries (Brazil, Russia, India, China, South Africa) is increasing. Moreover, many countries within the spectrum of Emerging Markets possess large reserves of raw materials that the West relies on in its transition towards green energy and increased digitalization. Therefore, the countries of tomorrow should be part of every long-term portfolio.

The China Risk!

Since Russia's invasion of Ukraine and the associated sanctions, investors have seen what can happen to stocks from sanctioned countries. Russia was practically excluded from the Western capital market. Now, the legitimate question arises whether China could face a similar fate if it were to attack Taiwan. I consciously invest in China through the Emerging Markets ETF because I consider the risk of not being invested in China to be greater than being invested. Moreover, I assume that China has learned from the sanctions against Russia. The West has certainly also learned and knows that China is about ten times larger than Russia. I hope that both sides are therefore aware of the consequences and remain invested in China. China accounts for approximately 27 percent of the Emerging Markets ETF and thus three percent of my portfolio. For those who do not want this, they can opt for an "Emerging Markets ex China ETF".

MSCI Emerging Markets in USD (5 years)

Weight:	ISIN:	Ticker:
10%	IE00B0M63177	IEEM
	US4642872349	EEM

MSCI USA

Would You Like a Bit More USA?

The USA remains the largest economy in the world. However, China is closing in, and depending on the measurement method used, China sometimes slips into first place. Nevertheless, one must not neglect the size and power of the American financial market. Globally, it is still immense. Studies show that over the last 30 years, the USA has significantly outperformed the MSCI World. Here, the ETF based on the MSCI USA Index is meant. This index represents the performance of 85 percent of American stocks without investing in specific sectors. This is important because, once again, the self-cleansing function (see explanation for the MSCI World ETF on page 2) comes into play. Technology stocks from the USA have performed well for a long time. However, the future probably belongs to other values and sectors. One should be open to these, which is why the MSCI USA Index can dynamically adapt to them.

Why Not Another USA ETF?

There are many indices for American stocks. Let's start with the Dow Jones. This index is the oldest US stock index, dating back to 1895. The 30 stocks in the index are weighted very idiosyncratically by their price, which is why the Dow Jones plays hardly any role in investment. Only financial reporters still refer to the index, while investors rarely do. Furthermore, there is the Nasdaq-100, which is very technology-heavy and therefore very sector-specific again. Then there is the well-known S&P 500, which represents the 500 largest companies in the USA, and the MSCI USA, which is similar to the S&P 500 but slightly broader. In principle, both of the latter two indices can be used. I have opted for the MSCI USA. This provides access to more than 600 large companies from the USA, as opposed to the 500 of the S&P 500.

85 Percent Sounds Good, Right?

I mentioned that the MSCI USA represents 85 percent of the market capitalization of the USA. Actually, a value with which one can be satisfied, as almost all values are in the portfolio. However, what is special is that among the remaining 15 percent of the market capitalization, there are some very exciting companies. These are usually left out of investment portfolios because these "Small Caps" receive little attention. However, on page 6 you will learn that one should not do without them!

MSCI USA in USD (4 years)

Weight:	ISIN:	Ticker:
7%	IE00B52SFT06	CSUS
	US4642871507	ITOT

Investing in Gold Mines

The Leverage on Gold Prices!

Gold mines have fascinated investors for years. Especially in Europe, a true gold hype broke out at the beginning of the millennium. Tens of thousands of investors bought gold mining stocks of all kinds. Unfortunately, these were primarily not good producers but so-called "explorers." These are companies that have little to show besides a good story. Of course, the stories about potential discoveries (usually unverified from a geological perspective) sound spectacular. Especially the low price of many explorers, often just a few cents, attracts speculators. Examples of a few companies that have actually made it to production serve as evidence that one can earn a lot of money with gold mines. The rude awakening comes later. In 99 percent of cases, private investments are lost. Why? Because most of it is usually just smoke and mirrors. Therefore, it is so important to choose the right gold mines for investments, and these are not the much-touted explorers but large mines that are already profitable and even pay dividends.

We Don't Invest in Junk!

I deliberately chose the story mentioned at the beginning to show that particularly in gold mine investments, a clear distinction must be made between young explorers and established producers. In my ETF strategy, I invest exclusively in large corporations that have proven for decades that they can make money with gold. Particularly suitable is the "NYSE Arca Gold Bugs Index," also abbreviated as "HUI." This index represents only large gold mines such as Newmont, Barrick Gold, or Agnico Eagle Mines, whose production is not or only to a small extent "forward sold." This means that almost no hedging transactions have been made.

Full Profit!

Since hedging transactions are a criterion for exclusion from the "HUI," this means that in the event of an increase in the gold price, the companies fully benefit from the profits. This even happens with leverage since the fixed costs do not increase significantly, but the profit multiplies. Gold mines are still undervalued but will benefit massively in the context of a rising gold price and offer additional security in the portfolio alongside physical gold.

VanEck Gold Miners in USD (4 years)

Weight:	ISIN:	Ticker:
11%	IE00BQQP9F84	SPGP
	US92189F1066	GDX

Small Caps Are Overlooked by (Almost) Everyone

Top Returns with Small Companies!

Small caps, often referred to as secondary stocks, rarely find their way into the portfolios of private investors. A big mistake, as you will soon read. But first, what actually defines a small cap? These are smaller companies with a market capitalization ranging from 250 million to two billion. Among them are the "Hidden Champions", world leaders in special niches you may have never heard of. There are companies with exciting business models that have not yet made it into the second (mid caps) or first league (large caps) of the stock market. Major indices such as the MSCI World or country indices like MSCI USA do not consider these small values.

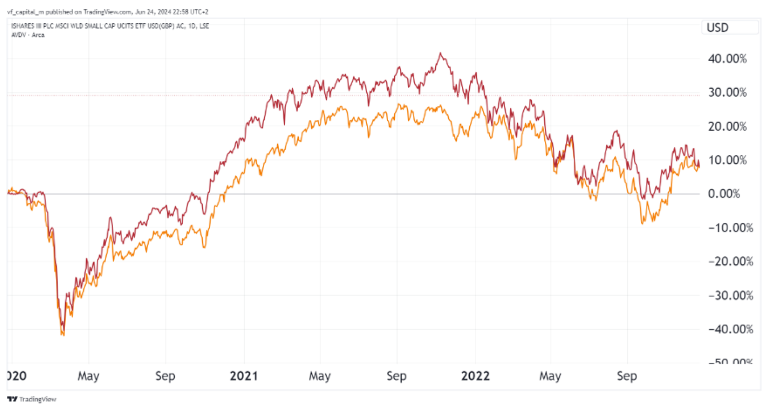
Statistical Outperformance!

There are several studies on so-called "Factor Investing". These are strategies that have managed to outperform the overall market for decades. Small caps are among them. Small companies, in particular, have a high risk of reaching their entrepreneurial limits and disappearing over time. In short, they go bankrupt. However, others manage to rise to the top and become the next Alphabet (Google) or Amazon. For this risk, which investors already invest in at the beginning of a company's career, a risk premium is paid. This enables a demonstrable outperformance of small values, and we want to capture this return with a portion of the portfolio through the MSCI World Small Caps ETF.

It Doesn't Always Work!

To my remarks, I must also add that factor-based investing statistically works, but there are also rough patches. Such an approach can lag behind the overall market in performance for up to ten years. This needs to be considered, which is why I do not give too much weight to small caps. I want to secure the outperformance but do not want to be overly invested when the strategy lags behind the market. If you have a different view or expect a very good phase for small caps, you can certainly allocate this approach more heavily. Important: You can always find the current weighting of my ETFs in the main issue on Tuesdays.

MSCI World Small Caps (in red)
Avantis International Small Cap (in orange) both in USD (3 years)



Weight:	ISIN:	Ticker:
7%	IE00BF4RFH31	WSML
	US0250728021	AVDV

Dividends are Extremely Important

The Key to Success!

Dividends are crucial in any wealth strategy. There are wonderful statistics showing that without dividends, the profits from stock portfolios over decades would be only a fraction. Wealthy investors, in particular, pay close attention to dividends to have funds for further investments or repurchases. I also use my earnings to reinvest in stocks.

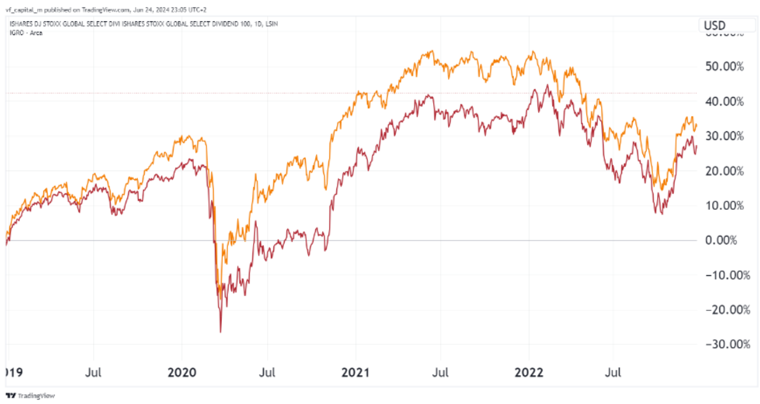
The Dilemma of Choice!

When looking for dividend ETFs, one is almost overwhelmed by the offerings. There are dozens of approaches, and each claims to be the best. However, one should delve deeper into dividend strategies beforehand, which might surprise you. According to studies, the amount of dividends is not so crucial for long-term success. It is rather the consistency that matters. This means: Regular payouts from good companies are the key to success. Just because a stock pays a dividend of ten percent or more in the short term does not mean this will continue. Often, high dividend yields even indicate problems within the company and significantly decreased stock prices. Therefore, I have chosen the approach of the "Global Select Dividend 100 ETF." This index, or the ETF referring to it, ensures that dividends have been paid in four out of the last five years and that the dividend has also increased over the past five years. Moreover, negative payouts are prohibited. This means that companies must not go into debt to pay dividends. A maximum of 60 percent of the profit may be distributed. The rest remains in the company, serving for investments to secure long-term growth and thus, in turn, an increase in future dividends.

Broad Investment!

The ETF I have chosen invests very broadly across North America, Europe, and Asia in a total of 100 companies based on several predefined criteria. This is my approach to incorporate dividends into a long-term portfolio. Alternatively, you can also use the dividend strategy by Lars Erichsen or complement both approaches. I myself choose a mixed approach and supplement my dividend ETF with stocks from Lars's portfolio.

Global Select Dividend (in red)
iShares International Dividend (in orange)
both in USD (4 years)



Weight:	ISIN:	Ticker:
11%	DE000A0F5UH1	0MNJ
	US46435G5247	IGRO

The US Real Estate Market in One ETF

Admittedly, the name "US Property Yield ETF" sounds quite cumbersome. However, behind it lies an exciting fund that allows us to invest in the American real estate market. As a property owner, I am extremely tied to the location with my direct investments. I cannot simply move my apartments, let alone sell them quickly. The location is fixed, and transactions are extremely slow. Therefore, I early on opted for diversifying my real estate portfolio through "mobile properties." This is possible through ETFs that specifically focus on real estate stocks like REITs (Real Estate Investment Trusts). REITs have slightly different structures depending on the country but always have one thing in common: they are tax-optimized companies that make money from the operation and trading of real estate. While you can invest in the residential sector in the USA through REITs, this is prohibited in most European countries. Moreover, we can also invest in traditional commercial properties, hotels, special properties such as train stations, care homes, and logistics properties without having to raise large sums for it.

What's Inside!

The "US Property Yield ETF" I purchased focuses exclusively on the USA. The money is distributed across more than 100 properties and diversified across all property classes. Furthermore, the ETF ensures that only assets with a projected dividend yield of at least two percent enter the portfolio. This ensures that a corresponding passive income can also be generated. Particularly with real estate investments, the inflow of rent makes the investment so attractive.

Important: Tax Optimization!

REITs are largely exempt from tax in the USA (and elsewhere) if they distribute 90% of their profits back to the investors. Thus, the tax is transferred to the individual investor level, while it can be worked with within the REIT.

For our European readers; the domicile of the presented ETF is in Ireland. Due to an older double taxation agreement with most countries, this halves the withholding tax to only 15% instead of 30%.

US Property Yield ETF in USD (4 years)

Weight:	ISIN:	Ticker:
11%	IE00B1FZSF77	IUSP
	US4642877397	IYR

Real Estate in Top European/International Locations!

Please note that the following text is dedicated to the EU Property Yield ETF, which is domiciled in Ireland. (Un)fortunately, we did not find a comparable ETF domiciled in the US. Therefore, we chose a real estate ETF that invests globally (excluding the USA, as we already have that exposure in our portfolio).

How about owning properties all across Europe? Sounds good and is also easily possible with the "EU Property Yield ETF." This ETF invests in REITs as well as in real estate stocks. In Germany (which has Europes largest real estate market), it is not possible to establish a REIT that invests in residential properties built before 2007. The legislator aims to prevent speculation with residential properties by doing so. However, this hasn't necessarily worked out as intended, as without the REIT status, regular stock corporations can still emerge and purchase residential properties. This can be clearly seen in the example of Vonovia and other large real estate companies. Therefore, the above-mentioned ETF invests not only in REITs but also in publicly traded real estate companies, covering the entire spectrum of the market.

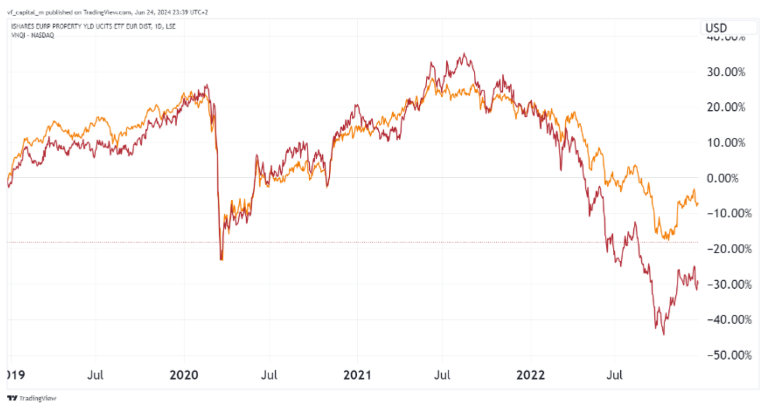
More than just Germany!

Especially with real estate, investors often make the mistake of concentrating their portfolio on only one or two properties. If conditions deteriorate there, the entire investment is at risk. Particularly, the depreciation of real estate usually amounts quickly to high five-figure sums. Investing in real estate ETFs elegantly bypasses this risk. The presented fund, when this profile was created, invested about 24% in Germany. Nearly 20% are invested in France, and 15% each in Sweden and Switzerland. Belgium (14%), Spain (5%), and Finland (3%), the Netherlands (3%), as well as Austria (1%) and, to a lesser extent, Norway, Ireland, and Italy also play a role. Just like with the ETF for the USA (previous page), attention is paid here to a projected dividend yield of at least two percent to guarantee a corresponding inflow. This ETF is suitable for almost any budget since it is much cheaper than an actual property.

Are there disadvantages compared to traditional real estate?

Real estate ETFs are tax-optimized due to their investments in REITs. However, if you want to exploit the full tax spectrum of real estate, you have to invest in a traditional property. The design possibilities (depreciations, tax exemptions) are extensive but, of course, come with the risk of investing all your money in just one place. My solution: a combination of both is the optimal solution for me.

EU Property Yield (in red)
Global ex-U.S. Real Estate (in orange)
both in USD (4 years)



Weight:	ISIN:	Ticker:
11%	IE00B0M63284 US9220426764	IPRP VNQI

Government Bonds Provide Security

Shock Absorbers for the Portfolio!

Most investors skip bonds when building a portfolio. This usually happens because there is no special relationship with fixed-income securities. Especially the long years of negative interest rates and a lack of education about bonds have led most retail investors to completely avoid this segment of the capital market. This is a significant mistake because bonds offer wonderful protection against severe market turbulence and also represent a very good opportunity for storing money.

My Bond Strategy!

I have U.S. Treasury bonds with a maturity of seven to ten years in my portfolio through an ETF. This component allows me to invest unneeded capital in U.S. dollars and, depending on the market situation, earn an interest rate between two and four percent. In addition, bonds are particularly interesting in periods of falling interest rates as you can achieve capital gains. Moreover, the U.S. bond market is extremely liquid, allowing us to sell at any time, even during turbulent times. My strategy is to park and earn interest on a portion of my money in U.S. Treasury bonds. However, if there is a significant setback in the markets, this part of the portfolio can be partially or completely liquidated and used for additional purchases. Typically, at least according to classical portfolio theory, bonds provide protection in difficult times and even increase in value. This did not work in 2022 due to inflation and the resulting rising central bank interest rates, which put pressure on both stocks and bonds. Nevertheless, I am convinced that U.S. Treasury bonds generally offer a good risk buffer and, even when it doesn't work out, we still receive interest.

Why USA and not Europe?

My decision to invest in U.S. bonds is a deliberate one, to park money outside of the euro system. I live in Europe and already have additional purchase capital in my checking and brokerage accounts denominated in euros. I intentionally wanted to invest the remaining capital in U.S. dollars to diversify my unused capital, similar to my investments, across multiple currency areas. This also allowed me to counteract euro weakness effectively.

USD Treasury Bond 7-10yr in USD (4 years)

Weight:	ISIN:	Ticker:
4%	IE00B1FZS798	IBTM
	US4642874402	IEF

China - A Calculated Risk!

Interest Plus Currency Gains!

Unnoticed by many investors, the Chinese bond market is evolving into the world's largest. The USA still dominates with approximately 45 trillion US dollars, but China is catching up rapidly and has now reached 20 trillion US dollars. Major investors like BlackRock and others have recognized the trend and are already investing parts of their massive wealth in Chinese bonds. I myself decided years ago to park a portion of my money in Chinese government bonds to achieve a very good interest rate, occasionally well above four percent, as well as capital and currency gains. Additionally, it appears that the Chinese bond market is becoming an increasingly popular haven for international capital.

Risks Must Be Considered!

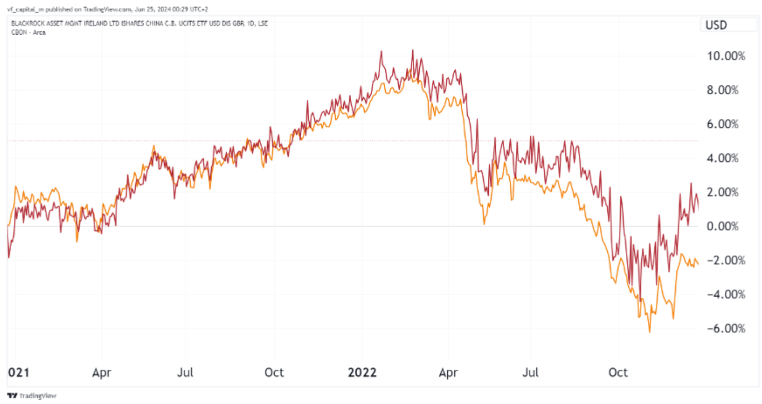
Of course, investing in China comes with uncertainties. The recent Russia-Ukraine war has shown what financial sanctions can be imposed and the damage investors can incur. However, it should not be underestimated that China is about 15 times larger than Russia in economic terms. Moreover, an attack by China on Taiwan is not 100% certain; there can be various scenarios ranging from a major escalation to an agreement. For my part, I still see significant growth in China as well as potential for an appreciation of the Chinese currency, the Yuan. Nonetheless, I am aware of the risks associated with investing in China.

Two Alternatives Without China!

For those who feel uncomfortable with the risk associated with investing in China, you can replace the ETF I purchased. You could also invest in European government bonds through the ETF with the ISIN IE00B4WXJJ64. France and Italy make up about half of this fund.

For US readers the ETF with the ticker „IGOV“ could be an alternative as it offers exposure to bonds issued by the governments of countries around the world (excluding the U.S.).

China CNY Bond UCITS (in red)
VanEck China Bond ETF (in orange)
both in USD (2 years)



Weight:	ISIN:	Ticker:
4%	IE00BYPC1H27	CNYB
	US92189F3799	CBON

High-Yield Bonds Belong in a Portfolio!

The Great Opportunity Is Finally Here!

Unfortunately, bonds often play no role for most private investors. These fixed-income securities are often considered too complicated because interest rates and bond prices move in opposite directions. When interest rates rise, the value of bonds falls, and vice versa. This "confusion" often leads to the entire sector being avoided. However, recent experiences highlight the importance of bonds in a portfolio. My ETF portfolio was able to withstand the turbulence of 2022 well because it had a bond buffer consisting of Chinese and American government bonds. Additionally, the capital is earning interest and can be quickly liquidated if necessary to make additional purchases in the equity ETFs.

Why Junk Bonds?

High-yield bonds are often referred to as "junk bonds" due to the higher default probability of the issuing companies. However, they also offer correspondingly attractive interest rates, currently at 7.5%. Investing in a single high-yield bond would be too risky. The risks would not be manageable, and there could potentially be a total loss. However, by diversifying across 1,194 positions, as this ETF does, the risk can be diversified away. This is where the true power of diversification is evident. Individually, each of these bonds is highly speculative. In combination, however, they are much less risky, especially at an attractive interest rate level that we haven't seen for a long time.

Only the US Market Is Interesting!

I deliberately focused on the USA when searching for a high-yield bond ETF. The U.S. capital market is incredibly efficient. Troubled companies are restructured through an extremely sophisticated recovery process, which ensures that even in the event of defaults, significantly more capital can be distributed to the creditors than in Europe or other regions. It is no coincidence that the USA has the world's largest capital market. Furthermore, studies from the USA show that portfolios with a high-yield component perform better than pure equity portfolios. This is mainly due to the very high interest rates that investors receive for taking on the risk. Additionally, high-yield bonds are less sensitive to changes in interest rates.

USD High Yield Corp. Bond in USD (5 years)

Weight:	ISIN:	Ticker:
4%	IE00B4PY7Y77	SHYU
	US4642885135	HYG