**May 26, 2023**

**Mark Noble:**
Hello, I'm Mark Noble, executive vice president of ETF Strategy at Horizons ETFs. Each year, Horizons ETFs hosts the Biggest Winner ETF Trading Competition. The Biggest Winner allows eligible Canadian investors to learn about trading in a simulated risk-free environment while competing for real cash prizes. Participants open a simulated online brokerage account that starts with a balance of one hundred thousand dollars of virtual Canadian dollars, no actual money is traded, and they can use these fantasy funds to virtually trade any ETF listed on the Toronto Stock Exchange. This year we've partnered with some well-known financial influencers and former winners to build out a Feature Trader Roster. With us today are two of those featured traders, James Lindhe and Tony Dong.

James was the Biggest Winner in 2022's Biggest Winner 11 competition during which he took home the $10,000 grand prize. He got his introduction to investing when he joined the Sprout Student Investment Fund at Carleton University. A university supported student-run equity fund that was managed at the time of over $500,000. James is a CPA and has spent the majority of his career at Canada Post where he is currently a finance director supporting decision making in a $1 billion operational segment. In addition, James is a board chair for a nonprofit long-term care home in Ottawa where he lives with his wife and dog.

Our other guest is Tony Dong, who is a well-known Canadian investment journalist who focuses on personal finance and ETF investing. And Tony started his investment journey in 2017 during the marijuana stock bubble. I think quite a few Canadian investors started there and after incurring some hilarious losses, that's his words, not ours, on various poor stock picks. He now adheres to a Boglehead style passive investment strategy using Index ETF. Tony graduated in 2023 from Columbia University with a master's degree in risk management. His investment qualifications include the Canadian Securities Institutes, Canadian Securities Course and Equity Trading and Sales course, Franklin Templeton's Canadian ETF proficiency course, the Bloomberg Market Concepts, CFA Investment Foundations and McGill University's Personal Finance Essentials. You can read a lot of Tony's work online. His work appears in US News and World Report, USA today, NYSE, ETF Central, NASDAQ, Fundata Site, SIBO ETF Markets, The Street and Benzynga. I mean, pretty much almost every online financial publication.

Guys, thanks so much for being with us today. I think I'm going to start a little bit and I'll dovetail off of the Bogleheads conversation because clearly this is an investment trading competition. We're looking at a short-term time horizon. So I wanted to start with you, Tony, just on the idea of how you would describe your investment philosophy and maybe explain to people a little bit what the Boglehead style is and how would your approach differ in this competition. And then of course James, I'd love it if you could jump in afterwards and describe a little bit of how you run your portfolio.

**Tony Dong:**

Sure. So the major difference is my time horizon, whereas traders are booking profits throughout the day, maybe if they're swing trading throughout the week. My time horizon is measured in terms of decades. I'm looking at goals that are 20, 30 years off. I also invest under a very different set of assumptions than traders. Mainly the one that I look at is maximum diversification. Personally, I don't like betting on individual companies. I don't bet on individual sectors or even geographies. You won't see me just investing in Canada or the US. The main framework behind this is regret minimization. I don't want to be in the position where I miss out on something that happens in a particular sector or market because I'm under invested there or I subject myself in my portfolio to too much risk by being say, concentrated in a US large cap tech stock growth. Does that sound familiar? So-

**Mark Noble:**

Yes.

**Tony Dong:**

The main thing there is to take on the minimal risk possible while ensuring the maximum return. And we all hear this expression, there is no free lunch besides diversification, which is why in my personal portfolio you see a fairly balanced mixture of stocks from around the world, from all sectors as well as fixed income of varying qualities, durations and issuer types. And I understand that I'm not going to beat the market. I am going to receive the market's average return, but coupled with aggressive saving and good financial behaviors, that's more than enough to carry me to my goals.

**Mark Noble:**

And so I guess the key portion there is that patience, right? I mean this is something where-

**Tony Dong:**

Yes.

**Mark Noble:**

You are not looking for the quick hit returns, you're looking for something that grows wealth over time.

**Tony Dong:**

Yeah, well I'm looking at steady compounding over long terms and one thing that I do want to stress to the listeners is that avoiding the massive drawdowns and high volatility is as important as trying to chase those returns. And I'd say it's more important just mathematically how it works. If you have a 50% loss, it takes a lot more than a 50% return to just break even from that, so minimizing that is your friend and minimizing volatility is your friend too because behaviorally volatility shakes a lot of people. It causes you to panic sell and that is what really derails a long-term investment planning.

**Mark Noble:**

So on the flip side of things, Tony, we've given you six weeks now to try to generate an attractive return. So what's the plan there? Because I don't know if the set and forget it and that's not exactly what you're doing, but the long-term diversified portfolio is what's going to probably win you the day.

**Tony Dong:**

That's not going to work here. So the focus right now, I said volatility isn't your friend earlier. Well in the case of this competition, it is absolutely your friend you want to go for those high beta investments and whether that's a result of the nature of the sector, say technology or a nature of the leverage like the BetaPro ETFs, you want to target that. So my personal strategy, I'm not a trader, I don't understand supports, resistances, I don't understand any of that. I'm terrible at industry and sector analysis. Just awful. So my strategy for this is I'm going all in on four different Ethereum and Bitcoin ETFs. I had some experience with crypto in the past, it wasn't very good, but it's what I have to work with. From what I see, most other people are trading BetaPro. So whether to leverage indices or leverage commodity funds. But I think I'll let James speak to this given that he won last year.

**Mark Noble:**

Yeah, I mean that's a great handover. James, you are a former winner, so clearly you have an M.O. of success in this competition. I'm curious though, before we get into that, how do you actually run your money in your own personal portfolio because you clearly have some real skill here?

**James Linde:**

So I'm super boring, very much like with Tony, set and forget. 90% of my money is in ETFs. I might have a few wild bets on the side, but that's just for fun. I'm really about the long term. I don't do very much stock research in my free time at all. For the competition. I will add not only a six week window but it's also fake money where if you come in third, it's the same amount of money as if you come in last. So you really have to swing for the fences. Volatility like Tony mentioned is king. I like the energy ETFs because they're very volatile. The 2x leverage ones of course as well. I did trade quite a bit of Bitcoin, Inverse and Bull last year. This year not quite volatility I'm looking for. So I'm thinking about something else, but it's a really different experience than my normal investing methodology.

**Mark Noble:**

And do you both have experience, and I'll start with you here James, do you both have experience with ETFs in real life? There are some things that investors should keep in mind about ETF investing because we're not doing stocks here, so we can't YOLO and video options or things like that, which maybe would add some more volatility. But in terms of ETFs, what do you guys see in terms of key features that maybe people who are new to this kind of competition may want to keep in mind?

**James Linde:**

In my personal life, the reason why I like ETFs is because I can sleep at night. I'm not worried about the next earning call for my company. In this competition, looking for thematic concentrated ETFs is the key. Something that's going to move a lot and we'll talk about it later I think, but you have to have about four ETFs in your portfolio. So you don't want to be diversified. You want to have those four ETFs going in a very similar direction. So betting on oil, betting on oil companies for example, that's what I'm trying to do to really just get lucky with the right movement and gain 10% in a week.

**Mark Noble:**

Do you use limit orders or market orders when you're buying and selling these on the competition? That feature is available on the trading simulator.

**James Linde:**

I don't bother personally.

**Mark Noble:**

No.

**James Linde:**

I just go market order.

**Mark Noble:**

Market order. Tony, how about yourself? What do you think investors should probably keep in mind about ETFs that maybe is a little bit different than if they were looking at stocks?

**Tony Dong:**

Well first of all, you get much greater transparency. All of the holdings in these ETFs are usually disclosed on a daily basis. If you go to the ETF provider website, you can easily find out what you're investing in. The second benefit is liquidity. For those of you unfamiliar with ETFs, there's a little process called the creation and redemption process. It ensures that even if the ETF's volume isn't too high or if the assets under management are too great, as long as the underlying asset of the ETF is liquid, you shouldn't have a problem buying in the middle of a limit order.

The other thing I do want to note with ETFs is that a lot of investors are afraid of these leveraged and inverse products and there is good reasons to suggest that these are not good long-term holds. The prospectus talks about that. But for a short-term trading competition like this, they are absolutely vital to your needs, especially given the fact that you cannot short and you cannot use margin. Then I would argue that a lot of these products may be preferable for new traders in lieu of margin or shorting because you cannot lose more than what you put in, you're not going to get margin called with a leveraged ETF. You're not going to have to put up collateral if you use an inverse ETF, whereas you would if you were shorting or using margin. They can also be used in registered accounts. So I think that's another benefit there.

**Mark Noble:**

Okay, well a little bit of education there you should take my job man. No, I really want to get into the competition right now. And James, last year I believe you used energy ETFs to primarily generate your winning returns. What's the strategy this year based on what you're seeing in the marketplace? What's your game plan?

**James Linde:**

Energy's still very volatile. So something I'm still taking advantage of. Specifically this year, what I think is different is financials. Nothing last year happened with financials that was notable, this year we have a lot of instability in what we've seen in the US banks as an example and hopefully it doesn't happen, but if the US defaults under debt, we're going to see a lot of movement in financials. It's my personal theory.

**Mark Noble:**

It's almost counterintuitive isn't it guys? Where it's like where you see fire in the market is what you're running to, to win in a trading competition.

**James Linde:**

Totally.

**James Linde:**

Not really investing discussion, but I love the top 10 Latest Trades view. The fact that we have this ability to what people are doing in the top, it introduces an element of game theory that's not usually there in investing that if you're in the top 10 you can really have a lot of fun with. When I won last year, in the last week or in the second last date, there's a big movement in oil where the top five people all end up being people exposed long on oil. So, I went extremely bearish on oil on the last morning and that would put me over the top because I knew game theory wise that by long oil I was not going to catch up to them. And so, I just said, "Hail Mary pass," to try to get on top.

**Mark Noble:**

Tony, you mentioned cryptocurrencies, any reason why or are you again just trying to look at the ball?

**Tony Dong:**

Well for me a theme that I'm seeing right now is continued strength in the tech sector off the backs of some stellar earning reports from the Mega caps. My view of crypto is just an imperfect alternative way of leveraging large cap tech. The two are very correlated. If you look at Bitcoin as just a high beta tech stock, it pretty much performs the same. I think I have a back test of Bitcoin versus a two times leveraged NASDAQ ETF. They pretty much move in tandem, but you avoid the volatility drag from the daily resetting leverage and of course you're subject to a lot more different forces like an errant Elon tweet or something could send that flying.

That's what I'm betting on. And also just because I have more experience in the crypto sector, but I think as an alternative to that, if I didn't have access to these crypto products, I would probably use a leverage NASDAQ fund like what's it called?

**Mark Noble:**

HQU.

**Tony Dong:**

And given that the holding period is just six weeks in total, I would definitely hedge my position in case I make the wrong call. So for that I would either use the inverse. Obviously if you hold both you're going to be losing eventually long term, but for the short term it's fine as a hedge if you rebalance and trim your positions. The other one I would consider and I think is very useful in a high volatility environment is Horizon's the VIX ETF, right?

**Mark Noble:**

HUV.

**Tony Dong:**

HUV. It's a direct volatility play. Obviously you're not tracking the VIX directly, you're tracking the VIX futures. There's a bit of tracking error there and all that, but it's the most direct product we have on the Canadian market. And if you look at the correlation of VIX futures to indexes, it's almost a perfect negative correlation, that is your hedge there if you're looking for safety before 2022, I would've picked something like long-term treasury bonds. But given the whole wonky stock bond correlation we've seen recently with rising rates, I wouldn't rely on that anymore.

**Mark Noble:**

So we've got just a round up there, we have energy, financials, cryptocurrency, NASDAQ, long and volatility. So you got about six different ways you could go at this competition. That's really awesome. Last question guys, I just want to keep this pretty brief, but this one I'm going to put you on the spot and you could talk about this in your real portfolio or the trading competition. I'm actually interested in both. This is not advice though, I need to make it clear. This is not advice, but I just, it's for informational purposes that we're doing this, but if you could pick one ETF in the entire TSX to own right now, what would it be?

**Tony Dong:**

I'll let James go first on this one.

**Mark Noble:**

Yeah.

**James Linde:**

Put me on the spot. In totality, not just TSX?

**Mark Noble:**

Yeah.

**James Linde:**

I like the NASDAQ just straight NASDAQ from my personal portfolio and not 2x. I believe in the strengths of Canadian banks long term and they've gone down a little bit in price lately. If I'm talking to personal portfolio here, not the competition.

**Mark Noble:**

Yeah, no, I think this is great though because-

**James Linde:**

On energy

**Mark Noble:**

I think it's great we had this conversation, sorry to interrupt, but I think it's great we have this conversation because I really want people in the competition to know this is fun. But then we've also got two serious people who run self-directed portfolios. What are they doing? So no, please continue. That's great.

**James Linde:**

Yeah, so because of the noise in the US on regional banks there, we've seen the valuations go down a little bit, make it a little bit cheaper. So long term I'm believer in the Canadian banks, if the Canadian banks go under, we will have other problems here. So might as well bet on them surviving.

**Mark Noble:**

Tony, you're a Boglehead, so I'm going to go into my crystal ball and I'm going to suggest that you are a fan of the S&P 500.

**Tony Dong:**

Actually no.

**Mark Noble:**

Okay. Okay. Well there's a failure.

**Tony Dong:**

The S&P 500 at the end of the day, it's a committee selected portfolio, 500 stocks, we saw in 2020 it absolutely missed the entire Tesla runup, whereas the total stock market index did not. My personal portfolio, and this is going to seem a bit contrary to Boglehead's philosophy and need a bit of explanation, is comprised of two dividend ETFs, one tracking the US market and one tracking the Canadian market. For the US market I use VGG, which is the Vanguard US dividend appreciation index. The reason behind that is it actually acts as a very effective factor ETF. I ran the regressions on it and it has a statistically significant high loading to the investment and profitability risk factors, which as we know contribute to quality stocks in line with Fama French's 5 factor model. This should result in alpha over time, well gross of any fees of course, but the expense ratio is low.

And the other reason I like it is that it holds about 230ish US companies that have increased common dividends for the last 10 years and excludes the top 25% of highest yielding stocks. So you avoid all those yield traps with terrible fundamentals compared to the S&P 500. Apple, Microsoft are still top holdings but they're only held about 4 to 3% each. So there's much less of a weighting to technology. In fact, technology is around I think 17% of the ETF, the highest is industrial. So you get a much more balanced sector representation.

On the Canadian side, I hold the Vanguard FTSE, High Dividend Yield Index ETF, which screens Canadian stocks for above average dividend yields. Now the interesting thing is that this ETF has a statistically significant high loading to the value factor. So it basically acts as a value factor ETF without the high expense you see with brand name factor ETFs. You also get the low turnover of Vanguard and FTSE index methodology. If we look at this ETF, it's mostly Canadian banks that are trading below valuations, life insurance companies and pipelines. It's held up fantastic in 2022. So the point I want to stress to my readers is that I am not chasing yields or dividends. I am using these dividend criteria as a proxy for selecting factor exposure, which I think is the right way to invest in dividends. We all know that dividends form an important plot of total returns, yada yada yada, but they themselves are not contributory to alpha, rather the factor exposures that they incidentally deliver create that alpha, theoretically over time, of course I'll probably lose to an index regardless, but it's scratches that itch to do something, right?

**Mark Noble:**

No, it is a great answer and we are obviously not affiliated with Vanguard, but that's the beauty of this competition is that we actually have every Canadian listed ETF on this competition. So I really like hearing about your personal strategies and your personal picks because guess what? Those are on the competition too. And that's the whole point of what we're doing is we're really trying to give people a comfort level in ETF investing. So you could have any kind of strategy you want to run for six weeks. We're not closing off the Horizon ETFs, it's the entire TSX gambit. And TSX is a co-sponsor of this event with us with National Bank and the whole point here is education and fun. So let's listen to strategies from influencers. I'm going to be watching you two very closely on that leadership board and see how you do relative to me and we'll see where this all shakes out at the end of June.

But gentlemen, thank you so much for your time today. Again, I want to highlight that we talked a lot about strategies. This is a simulation and we are not doing investment advice on this particular podcast. This is really for education and I would say a little bit entertainment purposes, but I strongly recommend you check out both of these individuals and put them into your featured watch list. And Tony in particular take a look at what he's doing online. He is writing great stuff and this should be a lot of fun this year. So guys, thanks again for doing this.

**Tony Dong:**

Thank you.

**James Linde:**

Thank you.