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## Switching from Index Mutual Funds to ETFs

**May 28th, 2008 · 9 Comments**

The following question is from Ed, who wants to switch from index mutual funds to ETFs:

> Many years ago I set up my RRSP using TD's low MER e-Series index mutual funds. I learned quite awhile ago that most actively managed funds cannot beat the indexes over the long haul. I'm now thinking of moving from index funds to ETFs. Is there a website(s) somewhere with a good list of available ETF's? I currently have a TD trading account so flipping over from TD index funds to ETF's should easily be done not forgetting penalties for redeeming within 90 days.

While index mutual funds are a great option for small portfolios, ETFs could be an even cheaper option for larger portfolios. Though hundreds of ETFs are available, most investors need to be aware of only a handful. You can obtain the list of ETFs that track broad indices under the ETF category on this website or the websites of the major purveyors - Vanguard and iShares (Canada and US). I use the ETF Connect website for looking up more obscure ETFs.

The following table lists the TD e-Series Index Fund and the equivalent ETF:

| TD e-Series Fund | ETF |
|---|---|
| TD Canadian Bond Index (TDB909) | iShares CDN Bond Index (TSX: XBB) |
| TD Canadian Index (TDB900) | iShares CDN Composite Index (TSX:XIC) |
| TD US Index (TDB902) | iShares S&P Index (IVV) |
| TD US Index Currency Neutral (TDB904) | iShares CDN S&P 500 Index (TSX: XSP) |
| TD International Index (TDB911) | Vanguard Europe Pacific ETF (VEA) or iShares MSCI EAFE Index Fund (EFA) |
| TD International Index Currency Neutral (TDB905) | iShares CDN MSCI EAFE Index (TSX: XIN) |

Note that a better substitution for the TD US Index (TDB902) could be the Vanguard Total Stock Market ETF (VTI). Also, an initial currency conversion charge will be incurred when buying ETFs that are listed on US exchanges. Throw in an emerging market ETF and REITs into the mix and you'll end up with a well-diversified portfolio.

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### 9 responses so far ↓

- 1 **Gail Bebee** // May 29, 2008 at 10:24 am

  I would suggest one change to the above ETF portfolio: replace at least part of the TD Canadian bond index fund with the iShares CDN Real Return Bond Index Fund (XRB). This ETF adjusts for inflation. As the inflation rate is likely accelerating due to rising energy costs working their way through the economy, this feature is an important consideration for fixed income investing.
  Gail Bebee
  Author of No Hype - The Straight Goods on Investing Your Money
  All the investing basics for Canadians from a savvy financial industry outsider
  Web: http://www.nohypeinvesting.com

- 2 **Canadian Capitalist** // May 29, 2008 at 10:31 am

  Hi Gail:

  Thanks for your comment. I'll agree with you on adding XRB or real-return bonds directly. Also, personally, I have opted for the short-term bond fund (XSB) instead of XBB.

  In my benchmark Sleepy Portfolio, I have a 5% allocation to XRB.

- 3 **Jon202** // May 29, 2008 at 11:13 am

  I'm sorry, but I cannot support an ETF portfolio without some COW in it. Maybe then, you'll have a CLU how to organize your ETFs.

  http://www.claymoreinvestments.ca/ETFs/Public/fund/Overview.aspx?ID=8ee4be52-eac2-4854-9478-9a07011b88c7
  http://www.claymoreinvestments.ca/ETFs/Public/fund/Overview.aspx?ID=c0a2adf3-4c30-4a6c-8221-66236e68962d

- 4 **RI** // May 29, 2008 at 11:35 am

  What kind of amounts would we consider to be "small" or "large". Is $1000 when you should consider switching from index fund to ETF? $5000? $20,000?
  Does it depend on how much you contribute monthly? Should it simply be some multiple, say, 6 months worth of contributions?

- 5 **Canadian Capitalist** // May 29, 2008 at 12:44 pm

  Jon: That's funny!

  RI: I purposely was vague on "small" or "large" account because it depends on many factors such as how much commissions are paid for each trade, how often the account is rebalanced, how often money is invested etc. For instance, someone with an account with a big bank might be paying $30 per trade compared to another with an account with Questrade paying $5.

  The advantage of ETF is lower MER but you pay trading commission to buy. I usually look to make up the commission through MER savings in one year. XIC MER is 0.25% compared to 0.31% for TDB900. If I pay $10 to buy XIC, I can make up the commission when I have $15K in Canadian equities. MER savings are much more for funds like VEA compared to TDB911 (0.12% vs. 0.48%), in which you can save with ETF even with $3,000 in international equities. I would guess that at $25K, an all-ETF portfolio is almost sure to save money.

- 6 **Jim Somerville** // May 29, 2008 at 6:00 pm

  This is very useful information! Thanks.

- 7 **PushingThirty** // May 29, 2008 at 11:25 pm

  Thanks for breaking down the difference between ETF's and index funds. I have been reading about these for months and have yet to feel confident enough to make a decision. Your post and the comments have me on my way!

  http://pushingthirtymydebtdeadline.blogspot.com/

- 8 **MoneyEnergy** // May 30, 2008 at 2:21 pm

  I was just going through this process a month or so ago.

  I noticed that TD's e-series Index funds seemed to closely match some of the ishares ETFs. Did TD come up with these e-Index funds in order to deal with the competition from the ETFs? Or did TD already have the e-Index funds in place?

  For myself it still makes more sense to go with the e-Index funds because I pay no commissions to invest in them, and I still get quarterly returns.

- 9 **Ed** // Jun 17, 2008 at 9:36 am

  For all those looking for a simple equation for how much money is needed to flip from one fund to another (or fund to ETF , etc.) from a higher MER to a lower MER based on covering your commission costs in one year of savings, well here it is:

  Minimum amount needed = (Commission charged to sell higher MER($) + commission charged to buy lower MER ($))/(Higher MER% - Lower MER%)

  Basically it is the total commssion cost in $ divided by the difference in MER%.

  Enjoy,

  Ed

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