

Patron Training: Morningstar's Portfolio X-Ray



Agenda

Accessing Morningstar's Portfolio X-Ray

Why X-Ray?

Entering Your Portfolio

X-Ray Your Portfolio

Diagnostics View

Stock Intersection

Accessing Morningstar's Portfolio X-Ray

Direction: Speaker will review with patrons how to access Morningstar.com Library Edition via the library's site.

Once in Morningstar.com Library Edition, you can access Portfolio X-Ray two ways:

1. Via the X-Ray tab
2. Via the link under the column labeled "Portfolio X-Ray"

Direction: Click Portfolio X-Ray

Why X-Ray?

Here is where you can input a portfolio of stocks, mutual funds, or some combination of the two, and get Morningstar's interpretation of how that portfolio is structured. Is the portfolio overweighted in growth stocks? Light on small companies? Heavy in international names? Does it have too many technology stocks—or too few?

Morningstar's Portfolio X-Ray is unique because it seamlessly meshes the stocks that you enter with the mutual funds that you enter, down to the level of the individual stocks that the mutual funds own. Because of that functionality, you may find that you have more exposure to a particular stock, industry, or investment style than you thought.

You may be wondering why that matters. It matters because unless you really understand how the various elements of a portfolio interact, you won't have a true picture of what sort of performance you can expect, nor the risks you're taking.

Entering Your Portfolio

So let's begin by entering a hypothetical portfolio of stocks and mutual funds and see what Portfolio X-Ray tells us.

Direction: At this point, you should already be on the Portfolio X-Ray page where you enter a portfolio. As you say the following text, please enter the tickers.

To enter a portfolio, you will need to know the tickers of the securities that you want to enter. If you don't know this information, use the Ticker lookup link. Note that each ticker that's retrieved via the Ticker lookup link has been hyperlinked; once you find the correct ticker, simply click on it and it will be populated in the holding box.

For our session today, let's create a portfolio that includes Citigroup (ticker: C), Ford (ticker: F), Microsoft (ticker: MSFT), and Janus Fund (ticker: JANSX). We'll also use Dodge & Cox Balanced, but let's use Ticker lookup for that. And finally, let's also add General Electric (ticker: GE).

Next, we need to decide whether we want to enter this portfolio in dollar terms or in percentages. Or, if the portfolio is pretty evenly divided among all of these securities, we can choose Equal Allocation. For simplicity's sake, let's choose Equal Allocation.

Direction: Click Equal Allocation and the appropriate boxes will be populated.

Now our portfolio has been built. Let's X-Ray it. To do so, we simply click X-Ray at the bottom of the page.

Direction: Click the arrow at the bottom of the page and you'll be taken to the X-Ray Overview page.

X-Ray Your Portfolio

The first page we're taken to is an X-Ray overview. This page provides an overview of what this portfolio looks like in terms of its investment style, sector weightings, asset allocation, international exposure, and a whole host of other portfolio analyses.

Think of this as the home page for your X-Ray. However, this is just the start. There are 11 different pages to the X-Ray report. The various pages provide more in-depth information than is found on the overview snapshot. You can access these pages via the drop-down box near the top of the page.

Direction: Click on the arrow in the drop-down box and scroll down to reveal the various views. Highlight the Diagnostics view. You'll be taken to the Diagnostics page.

Diagnostics

By far the most popular page in the X-Ray is the Diagnostics page. Here, you will find a plain-English explanation of the status of your portfolio. Each area of the page includes interpretive text that explains whether your portfolio is underweighted or overweighted in a particular area, whether the portfolio harbors hidden risks, and what sort of investor this portfolio is best-suited for.

Direction: Scroll to the Asset Allocation and Style Box Diversification portions of the page.

According to the X-Ray Diagnostics, our asset allocation and diversification are aggressive, but that may be fine for us if we have a long investment horizon (10-plus years) and we can handle the risk. However, if we don't have a long-term horizon and a pretty good stomach for risk, then we may need to diversify the portfolio more.

Elsewhere on the X-Ray Diagnostics page, we see in what areas we have a lot of exposure and where we have very little exposure. These are highlighted with red and white diamonds. By seeing where we are either heavy or light, we can determine how to diversify. Morningstar will not explicitly tell us what to buy or what to sell. That's our decision. But the X-Ray does provide us with the information we need to see where we might make a change.

Direction: Go back to the drop-down box atop the page to check out other available views.

As you can see, we can dig deeper into several areas: asset allocation, international holdings, and bond exposure among them. Each of these pages will provide us with more in-depth information about those parts of our portfolio.

Direction: Click on several of the options that appear in the drop-down box to give the audience glimpses of what each page contains. Make your final click the Stock Intersection page.

Stock Intersection

Let's take a moment to review one particular page of the X-Ray: the Stock Intersection page.

I want to focus on this page because it showcases the idea of portfolio overlap, and how you could have more exposure to one stock than you thought. You may own the stock outright and the stock may be a holding in one or more of your mutual funds.

As you can see from our portfolio, our mutual funds do, in fact, own some of the same stocks. So if the stocks that these two funds both own took a tumble, you would have two mutual funds taking a hit at the same time. That could have a pretty big impact on your portfolio if your funds had significant positions in the same stock and if you own the stock outright, as well.

You can print any or all of the views, which I recommend. You cannot save a portfolio to Morningstar.com Library Edition.