The 5 Best Dividend ETFs for Investors

Description

Interested in dividend investing but don't have the time to construct a portfolio of individual stocks from scratch? That's not a problem, thanks to the advent of exchange-traded funds, or ETFs. Today you can quickly build an income portfolio without the hassles of listening to conference calls or reading balance sheets.

Today, I'm going to highlight the top five dividend ETFs to help get you started. Let's dive right in.

Canada's top 5 dividend ETFs
The good news for Canadian investors is that the number of ETFs catering to income-hungry investors is increasing. But with more choices, investors have to do additional homework to determine the best option for their portfolio.

Ticker	Name	Size	Yield	MER*
XDV	iShares Dow Jones Cad Select Index Fund	$1.27B	4.16%	0.55%
CDZ	iShares S&P/TSX Cad Div Aristocrats Index Fund	$0.88B	3.24%	0.66%
ZDV	BMO Cad Dividend ETF	$0.24B	4.90%	0.35%
ZWA	BMO Covered Call DJIA ETF ($CAD Hedged)	$0.11B	4.99%	0.65%
XEI	iShares S&P/TSX Equity Income Index Fund	$0.17B	4.63%	0.61%

*Source: iShares Canada and BMO ETFs. *Management expense ratio.*

iShares Dow Jones Select Dividend Index Fund
The **iShares Dow Jones Select Dividend Index Fund** (TSX: XDV) is the largest dividend ETF in Canada. The Index is comprised of 30 of the highest-yielding dividend-paying companies in the Dow Jones Canada Index. Positions are weighted using a rules-based methodology including an analysis of dividend growth, yield, and payout ratios.

The ETF's management expense ratio, or MER, isn't the cheapest of its peers but is still less expensive than a traditional mutual fund. One of the main concerns with this fund is that financials account for more than 60% of holdings. That's a large concentration for a single sector.

iShares Canadian Dividend Aristocrats Index
An excellent and consistent performer, the **iShares Canadian Dividend Aristocrats Index Fund** (TSX: CDZ) is a veteran in this category. Holdings in this fund must increase its ordinary cash dividend every year for the past five years. However, a company can maintain the same dividend for a maximum of two consecutive years within that period.

The main drawbacks of this ETF are that the yield is a little on the low side and the MER is a little on the high end. But this fund provides the best sector diversification in the group and is loaded with many growing companies. The ETF is best suited for investors that can sacrifice current income today for dividend growth in the future.

BMO Canadian Dividend ETF
The **BMO Canadian Dividend ETF** (TSX: ZDV) is one of the newest additions to the dividend ETF category. Much like its rival XDV, ZDV uses a rules-based methodology to allocate funds by taking into account three-year dividend growth, yields, and payout ratios.

The advantage of ZDV is that it has the lowest MER of its peers and boasts the highest yield of the group. This fund also has a respectable sector diversification, though financials and energy account for more than 60% of the fund's holdings.

BMO Covered Call Dow Jones Industrial Average $CAD Hedged ETF
For investors looking for a little extra income boost, the **BMO Covered Call Dow Jones Industrial Average ETF** (TSX: ZWA) is an interesting option. Just like a normal index fund, ZWA holds the 30 Dow Jones Industrial Average components. What's unique is that this ETF also writes out-of-the-money call options on its positions.

The advantage of this strategy is that the fund can generate additional income. The downside is that writing call options can cap investment gains. So if the market rallies considerably — as we've seen in recent years — this fund will lag substantially.

For investors interested in the covered call strategy, the **Bank of Montreal** also offers the same service on the Canadian financial and utility industries. This fund is best suited for investors that want to maximize their current income and are not worried about limiting capital gains.

iShares S&P/TSX Equity Income Index Fund
The **iShares S&P/TSX Equity Income Fund** (TSX: XEI) solves two investor problems; 1) the need for higher yield and 2) the need for diversification not offered by traditional index funds.

XEI invests in the top 75 stocks within the S&P/TSX Composite Index with yields above the median of all dividend-paying companies. Additionally, all holdings within the fund are capped at 5%. This ensures a juicy yield plus sufficient diversification for investors.

Foolish Bottom Line
As is the problem with most Canadian index funds, ETFs are often heavily weighted toward the country's banking and energy stocks. This is especially true with dividend ETFs. Before adding any product to your portfolio, be sure to investigate the fund's holdings in relation to your current assets to prevent excessive exposure to a single industry.

DIY
As a work around for the problem of poorly diversified ETFs or index trackers, The Motley Fool Canada's senior investment analyst created an exclusive free report detailing "5 Stocks That Should Replace Your Canadian Index Fund." It's designed as an easy-to-implement strategy for a diversified portfolio of stocks poised to beat the market; in fact, one of his five ideas was recently bought out at a

nice premium. To see the four remaining stocks, download a copy of this free report by clicking here right now.

Disclosure: Robert Baillieul has no positions in of the stocks mentioned in this post.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:XDV (iShares Canadian Select Dividend Index ETF)
3. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)
4. TSX:ZDV (BMO Canadian Dividend ETF)
5. TSX:ZWA (BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF)

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