3 Top Dividend ETFs Yielding Up to 4.4%

Description

Are you interested in dividend investing, but don't have the time to build a portfolio of individual stocks?

Not a problem. Thanks to the explosion of exchange traded funds, or ETFs, you can enjoy all of the benefits of dividend investing but without the hassles of digging through financial statements or listening to conference calls.

ETFs have a couple of advantages. First, they provide diversification. There's no quicker way to assemble a high-yield portfolio. With the click of mouse you can buy a basket of top income stocks. ETFs can be bought and sold throughout the day just like a regular stock and are often cheaper than comparable mutual funds.

The downside? With an increasing number of options to choose from, there's more homework involved in selecting the ETF that's right for you. So, with that in mind, here are three top dividend ETFs for Canadian investors to consider.

BMO Canadian Dividend ETF

BMO Canadian Dividend ETF (TSX: ZDV) is the only dividend ETF not based on an index. Rather, the fund uses a rules-based system that ranks stocks by their three-year dividend growth, yield, and payout ratio. This gives the fund a bias to small and medium size stocks that are under represented in other ETFs.

Here's why I like this fund: At 4.4%, the payout on this fund is almost twice as high as the **S&P/TSX Composite Index** and no other dividend ETF comes close to matching its yield. Better yet, distributions are paid out monthly. That's great for some of us who rely on dividend income to pay the bills as it's easier to manage expenses with cash flow.

However, this fund has other benefits too. The fund's management expense ratio is a reasonable 0.35%, near the lowest of its peers and a fraction of a comparable mutual fund. That means less money in your banker's pocket.

iShares S&P/TSX Canadian Aristocrats Index Fund

Not every car is of Ferrari quality, and neither is every dividend stock.

In fact, there is a special group of dividend stocks Standards & Poor's tracks called the 'Dividend Aristocrats'. These dividend payers don't just pay a dividend. In order order to be included on this list companies must raise their ordinary cash payouts for at least five consecutive years. When a company has a half-decade-long streak of paying and raising its dividend, you better believe investors are generating some impressive compound returns.

The **iShares S&P/TSX Canadian Dividend Aristocrats Index Fund** (TSX: CDZ) was set up to track these remarkable companies. There's no faster way to build a portfolio of wonderful businesses with a consistent track record of rewarding shareholders through growing payouts. And while the fund's 3.3% yield won't blow your socks off, investors can expect that payout to grow quickly in the years to come.

Claymore S&P/TSX Canadian Preferred Share ETF

Preferred shares are an oddity of the investment world. They're not quite a common stock, yet they're not a fixed income product either. This investment class straddles the boundary between stocks and bonds.

Preferred shares have their pluses; they're generally less volatile than common shares. Many boast impressive yields like their fixed income cousins, yet they still qualify for the dividend tax credit. On the downside, they don't offer the same potential for capital appreciation like common shares. Also, they tend to be quite complex and thinly traded, which is why I recommended people consider a preferred share ETFs.

One example is the **Claymore S&P/TSX Canadian Preferred Share ETF** (TSX: CPD). The fund holds a diversified basket of 174 preferred shares and yields 4.44%. Aside, from the sharp sell-off we saw at the peak of the financial crisis, the performance of this fund has been remarkably steady.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:ZDV (BMO Canadian Dividend ETF)

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rbaillieul