Get Exposure to 1,583 Different Stocks With These 3 ETFs

Description

During the 1800s, the thirst of the average American for alcohol was practically unquenchable. From this, an entire industry was born. Various bars and saloons popped up across the country, and soon enough there was an oversupply. This led to owners trying some innovative solutions to keep the drinks flowing.

The most common promotion was a free lunch. The hope was that large numbers of men would be drawn in by the free meal, and then buy more than enough alcohol to make up for it, thus subsidizing the cost. Giving a free lunch was typically a well received promotion, but it had one major drawback. People who saved money on food could afford to drink more, which was more likely to lead to over drinking, which has its own set of problems.

Today, we've learned a valuable lesson from this piece of 1800s economics. There's no such thing as a free lunch. And as investors, we know this better than anyone. Investing in stocks seems like a no-brainer when prices are going up, but the tradeoff is risk. Stocks can, and do, lose money on a somewhat regular basis. Dividends come with the risk of a company losing out on a major acquisition or buying back its own shares, both of which could goose returns more than paying out a dividend.

It's often said that diversification is the closest thing investors have to a free lunch. By spreading out risk over multiple companies, investors are effectively removing company specific risk factors from their portfolio. If an investor owns 35 companies and one tanks for whatever reason, the portfolio is largely unharmed.

For beginning investors, this is difficult to do. They typically don't have the capital or expertise to pick individual stocks. Here are three exchange traded funds (ETFs) that allow investors to diversify across large segments of the market, all while keeping expenses low.

iShares Capped TSX Composite ETF

Investors that are looking for exposure to the largest Canadian stocks should look no farther than the **iShares Capped TSX Composite ETF** (TSX: XIC). This fund seeks to replicate the return of the **TSX Composite Index** (TSX: ^OSPTX), while limiting the fund's exposure to one single stock at a maximum of 10% of the portfolio.

This fund has 244 underlying holdings. Some of the largest holdings in the fund are the stalwarts of Canadian business, including **Royal Bank** and **Suncor Energy**. It also boasts a market cap of more than $1.4 billion and a dividend yield of just under 2.5%. Considering the number of stocks held by the ETF, that dividend is unbelievably safe.

Perhaps the biggest appeal of this ETF is its rock bottom management fee of just 0.05%. If an investor had $10,000 invested in this fund, they'd be paying just $5 a year in fees.

iShares S&P 500 Index Fund

The United States is the world's largest economy, and is home to many of the world's best companies. An investor would be foolish to not have exposure to it in their portfolio.

The **iShares S&P 500 Index Fund** (TSX: XSP) gives an investor exposure to the largest 500 American companies, all for the low cost of just 0.10% per year. Top holdings in this fund include some of the biggest and most respected companies in the world. This ETF has a dividend yield of around 1.7%, which isn't bad considering it has exposure to some high growth companies. It also has a market cap of more than $2 billion, ensuring ample liquidity for all investors.

This fund also hedges returns to Canadian dollars, which is a plus for Canadian investors.

iShares MSCI Emerging Markets ETF

Although Canada and the United States get the vast majority of our investing attention, emerging markets deserve a spot in everyone's portfolio. The **iShares MSCI Emerging Markets ETF** (TSX: XEM) gives investors access to 839 stocks in countries across Latin America, South America, Africa, Eastern Europe, and Asia.

It's simply too expensive for most investors to have direct holdings in many emerging market companies, so this fund and its 0.79% management fee is a good alternative. It has 17.3% of its holdings in China, 16.1% in South Korea, 11.7% in Taiwan, 11.1% in Brazil, and 7.8% in South Africa, plus others in smaller markets. It's nicely diversified among all the major developing markets.

It also pays investors a 2.5% dividend, and has more than $260 million in assets under management. For investors looking for broad exposure to developing markets, it's hard to do much better.

For some investors, choosing index funds can be an easy way to get exposure to certain markets or parts of the world. Perhaps they don't have the time or the confidence to pick individual stocks, even though it really isn't that hard. For those investors, ETFs can be a good choice.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
2. TSX:XSP (iShares Core S&P 500 Index ETF (CAD-Hedged))

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