Forget These 5 ETFs: Buy These 5 Stocks Instead

Description

Infrastructure is hot.

Alain Desbiens, vice president of sales at BMO ETFs, recently appeared in a *Morningstar* video discussing the ETF trends for 2017; infrastructure, industrials, oil and gas, Canadian banks, and U.S. banks are the hottest sectors with investors right now.

While it's tempting to buy ETFs that capture these sectors, investors who follow the KISS rule (Keep it simple — well, you know the rest) might want to pass on the five ETFs that stand in for these sectors and buy these five stocks instead. Sure, you might have a more focused portfolio, but you won't be paying all sorts of management fees while obtaining reasonable long-term returns.

Pass on this: BMO Global Infrastructure Index ETF (TSX:ZGI)

Buy this instead: Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM)

Hey, it's hard to knock the performance of the ZGI, whose annual total return over the past five years is 15.4%. However, Brookfield Asset Management, Canada's largest alternative asset manager with more than $250 billion in assets under management, including a 30% equity interest in **Brookfield Infrastructure Partners LP**, did 423 basis points better.

In addition to the infrastructure investments, you get real estate, private equity, and more — all run by Bruce Flatt, one of this country's best CEOs.

Pass on this: BMO S&P/TSX Equal Weight Industrial Index ETF (TSX:ZIN)

Buy this instead: Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

This one's a tough one because I do like the equal-weighting aspect of this 26-stock portfolio. However, you can get most of ZIN's holdings, albeit not at 3-4% weightings per stock, by owning one of the many ETFs that track the performance and holdings of the S&P/TSX Capped Composite index.

The fact is, if CNR is good enough for Michael Larson, Bill Gates's money man, it's good enough for me. In addition, railroad stocks are about as good a proxy for the industrial sector as you're going to get.

Pass on this: First Asset Can-Energy Covered Call ETF (TSX:OXF)

Buy this instead: Enbridge Inc. (TSX:ENB)(NYSE:ENB)

While it's tempting to recommend the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) because 20% of the 60-stock portfolio is invested in energy stocks, including Enbridge at 3.48%, this exercise is meant to show investors that they can build focused portfolios that provide diversification, downside risk protection, income generation, and capital appreciation.

I recently highlighted Enbridge for its 4% yield. As Canadian stocks go, oil and gas or otherwise, Enbridge is an income investor's dream stock.

Pass on this: BMO S&P/TSX Equal Weight Banks Index ETF (TSX:ZEB)

Buy this instead: Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

I hate to pick on another Bank of Montreal ETF because I've got nothing against their ETF offerings. In fact, it's actually a back-handed compliment because it has done a better job honing in on what Canadian investors want outside the broad-market index ETFs.

While tempted to pick **Royal Bank of Canada** because it's the biggest of the Canadian banks and the least egregious when it comes to milking the CMHC, I've got to go with the bank I think is doing the best job for its shareholders, and that's CIBC.

With or without PrivateBancorp, CEO Victor Dodig has changed the culture at the bank for the better. That said, I do believe the bank will ultimately be successful in reeling in its Chicago acquisition.

Pass on this: BMO Equal Weight US Banks Hedged to CAD Index ETF (TSX:ZUB)

Buy this instead: SVB Financial Group (NASDAQ:SIVB)

Unless you closely follow U.S. stocks, you likely will never have heard of SVB Financial, but it's easily my favourite U.S. bank. Based in Silicon Valley, it got its start lending to tech start-ups operating in California. Once it had earned the trust of the entrepreneurs running these companies, they brought over their families' personal banking to go along with the business banking. SVB Financial now handles $81 billion in total client funds and is growing on a global basis.

The one caveat: You might want to buy yourself the **BMO S&P 500 Hedged to CAD Index ETF** (TSX:ZUE) or some other S&P 500 ETF that's hedged to the Canadian dollar to give yourself broader exposure to the U.S. markets; it's got a 14.4% weighting in U.S. financials.

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Date
2025/08/03
Date Created
2017/01/24
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