Get Energy Exposure: Funds vs. Individual Stocks

Description

If oil prices rise, the junior oil companies tend to perform better than bigger oil companies. However, it’s anyone’s guess who the winners will be.

Interested investors can gain exposure to the junior group via the **BMO Junior Oil Index ETF** (TSX:ZJO). The fund seeks to replicate the performance of the Dow Jones North America Select Junior Oil Index. The ETF holds micro- to medium-cap companies in the oil and gas producers or oil equipment, services and distribution sectors.

After a meaningful 20% pullback from late 2016, the BMO Junior Oil Index ETF has experienced an uptick recently. The fund can head higher if it breaks above a major resistance at roughly $15.61.

Lower your risk with the fund

The benefit of investing in the fund is that you get to significantly lower your risk by spreading it across many junior oil companies while gaining access to capture any upside to higher oil prices.

The fund has about 67% in U.S. equities, 22% in Canadian equities, and 11% in international equities. Its top 10 holdings make up 43% of the fund. Among them are **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) and **Whitecap Resources Inc.** (TSX:WCP), which take the fourth and 10th spots, respectively, of the fund.

Image not found or type unknown
oilpump 16:9

Get more income from individual companies

Although you can lower your risk by investing in the fund, you can get a higher yield by being selective in the energy stocks you buy.

The BMO Junior Oil Index ETF currently offers a tiny yield of less than 0.80%. Additionally, it has a 0.55% management fee.

So, essentially, the income component of the returns is negligible, and investors can expect to get the majority of the returns from potential price appreciation of the fund.

Both Vermilion Energy and Whitecap offer higher yields than the fund. They yield 5.1% and 2.7%, respectively, from their recent quotations.

Dividends can lower the risk too

By buying energy companies with sustainable dividends, you can lower your risk. With each dividend you receive, you can view it as getting a part of your investment back. If price appreciation doesn’t happen, you can still get a return from dividends.

Between Vermilion Energy and Whitecap, I’d put my bets on the former, which maintained its dividend through the energy downturn. Since 2003, Vermilion hasn’t slashed its dividend and even raised it three times.

Moreover, Vermilion Energy maintains a globally diversified portfolio with operations in Canada, the United States, France, Ireland, the Netherlands, Germany, and Australia. Its production mix includes 52% natural gas, 44% oil, and 4% natural gas liquids. It enjoys higher European gas prices, which contributes 31% of its cash flows.

Investor takeaway

If you are bullish on energy, you can capture any potential upside via the BMO Junior Oil Index ETF. If you prefer to get a nice income, you can consider strong dividend payers, such as Vermilion Energy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/14
Date Created
2017/04/05
Author
kayng