Royal Bank of Canada or 3 Corporate Bond ETFs for Your RRSP

Description

There was a time when **Royal Bank of Canada** (TSX:RY)(NYSE:RY) was not the largest company on the TSX. Yes, it's true; back in 2008, **BCE Inc.** and **Agrium Inc.** competed with Royal Bank for the top-dog position. Those days are gone.

Royal Bank now sits on top with a market cap of $147 billion. Earnings per share (EPS) are currently north of $7, and EPS tend to rise by $0.44 per year. Trading around $101 per share means the price-to-earnings ratio (P/E) is roughly 101 divided by seven for a multiple of 14. With this low P/E in mind, buying Royal Bank for the 3.6% dividend is a pretty safe bet, because your capital investment is likely to hold up over time (and almost certainly go up).

I would not admonish a fellow investor for parking cash in Royal Bank, by buying shares and earning income while waiting for other valued choices to appear.

But there are other ways to invest relatively safely, keeping an RRSP portfolio moving in the right direction, but conceding the growth will be slower yet steady.

Bundled corporate bonds can do this too in the form of exchange-traded funds (ETFs) that have the following attributes:

First, is it easy to find ETFs with high liquidity, meaning you can get your money out of the ETF in a timely manner if **Alphabet Inc.** shares, for example, suddenly go on sale (A guy can dream). Recall that trading within an RRSP is not subject to capital gains/losses.

Second, corporate bond ETFs pay dividends.

Third, corporate bond ETFs offer blanket bond coverage across numerous companies that are borrowers, which means any one company in trouble will not sink the fund.

Fourth, I believe the corporate bond market has already priced in interest rates hikes in Canada, which negatively affects the bond market.

Here is a list of some top corporate bond ETF picks:

VANGUARD CDN SHORT TERM CORP BD IDX ETF (TSX:VSC) is a *Morningstar* five-star-rated ETF with a minuscule management fee of 0.1%. The fund holds 247 corporate bonds under its $1.3 billion belt. All but one of the top 25 bond holdings in this ETF are from banks, which is telling. The non-bank top holding is a Government of Canada bond. The bond coupons range from 1.6% to 3%, which is why the ETF's dividend yield is 2.7%. Note that low coupon rates are euphemisms for low risk. There are no junk bonds found here! VSC has good liquidity; roughly 300,000 shares are traded per day.

Claymore 1-5 Yr Laddered Corporation Bond Exchange Traded Fund (TSX:CBO) is a four-star fund with a 0.28% management fee. It acts differently than VSC, because it holds a basket of bonds that mature between one and five years out, smoothing out the bond market dynamics to some extent. This fund is useful if you want to construct a bond ladder but don't have enough cash to build your own. The yield for CBO is 2.8%. The holdings are similar to VSC.

Although smaller in market cap, **HORIZONS ACTIVE CORPORATE BOND ETF** (TSX:HAB) has been a dependable fund since its inception in 2011, when the fund opened at $10 per share. The fund has the highest management fee of the three, but that is still quite low at 0.50%. It trades in a very narrow range; the price is now only $0.80 higher than it was six years ago. View this ETF as a pure income play. The yield is 3.25%, higher than VSC and CBO, but this fund trades with lower volumes. This Horizons ETF is a solid option.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:CBO (iShares 1-5 Year Laddered Corporate Bond Index ETF)
3. TSX:HAB (Horizons Activeorate Bond ETF)
4. TSX:RY (Royal Bank of Canada)
5. TSX:VSC (Vanguard Canadian Short-Term Corporate Bond Index ETF)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/09/10
Date Created
2017/12/02
Author
bmacintosh