# The Technology Index Is Up by 33% in 3 Months! Don’t Miss the Train!

**Description**

The **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT) is up by a third over just the past quarter. Year-to-date, it’s up by nearly a quarter. The turnaround in the index indicates a swing in sentiment for Canada’s thriving and diverse technology sector.

But is it worth the price right now? Let’s take a closer look:



## Under the hood

Launched in March, 2001, at the height of the dot-com bubble, Blackrock’s tech index was designed to offer retail investors targeted exposure to Canadian information technology companies and a way to generate long-term capital growth by replicating the performance of the **S&P/TSX Capped Information Technology Index** (net of expenses).

As with any other index exchange-traded fund (ETF), there’s a margin of error between the actual returns of the index and the total return of the ETF. This margin is called the tracking error and it shows investors how efficient the fund is.

XIT’s tracking error appears to be noticeably wide. Since inception, the ETF has delivered a total annual return of 3.91%, while its benchmark has returned 4.39% – a cumulative tracking error of nearly 11%.

However, that doesn’t mean that the ETF hasn’t been a good investment. In fact, the total return on the tech ETF is nearly triple the annual return from the headline **S&P/TSX Composite Index**. For high-growth investors, there’s still no better alternative than technology stocks.

## Holding analysis

Many of the names in the tech index ETF should be familiar to growth investors. The largest holding (representing 25.92% of the portfolio) is **Shopify** (TSX:SHOP)(NYSE:SHOP). Along with **CGI Inc.** (TSX:GIB.A)(NYSE:GIB), **Constellation Software Inc.** (TSX:CSU), and **OpenText Corp.** (TSX:OTEX)(NASDAQ:OTEX), the top four holdings account for 82.61% of the entire portfolio.

In short, the index's expected return is closely correlated to the future of these four companies.

Over the past few months I've covered three of these four stocks. I believe Shopify's growth rate could take a hit with the rising threat of competition in eCommerce. I'm bullish on Constellation's prospects and believe OpenText is a solid enterprise software company that's in the middle of a turnaround and could be undervalued.

I haven't covered CGI yet, but others have done a far better job than me. My Fool colleague Karen Walker, CFA, covered the stock a few weeks ago and concluded that it was poised for market-beating returns.

Overall, I believe the iShares tech index ETF is a mixed bag. The unit price ($22.2) is slightly higher than the net asset value marked-to-market on March 21. Since much of the portfolio is concentrated in just four stocks, savvy investors can simply pick and choose their favorite ones and adjust the weights to recreate the portfolio without added management costs, tracking errors, or net value misalignment.

## Bottom line



In terms of capital appreciation, investors may struggle to find a better alternative to Canada's technology industry. Returns from the technology index have been far greater than the general stock market over any recent period.

Blackrock's iShares tech index ETF is a great barometer for growth-seeking technology investors, but it can be easily and cheaply replicated for potentially better performance over the long-term.

**CATEGORY**

1. Investing
2. Tech Stocks

**TICKERS GLOBAL**

1. NASDAQ:OTEX (Open Text Corporation)
2. NYSE:GIB (CGI Group Inc.)
3. NYSE:SHOP (Shopify Inc.)
4. TSX:CSU (Constellation Software Inc.)
5. TSX:GIB.A (CGI)
6. TSX:OTEX (Open Text Corporation)
7. TSX:SHOP (Shopify Inc.)

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