Forget the S&P/TSX: Buy and Hold This Cheap ETF Instead

Description

If you're a new investor, exchange-traded funds (ETFs) are a great way to get into the market without having to pick and choose stocks yourself.

It also helps with costs, as you don't need to pay someone to pick those stocks for you. There's already a whole team of analysts doing that to make sure you get a steady, stable investment.

But just because you've chosen to buy ETFs, it doesn't mean your decision will be an easy one. There are so many out there since the financial crisis of 2008 that offer exposure into every corner of the stock market.

But again, if you're just starting out, looking at Canadian banks is a great option. Analysts saw that after the 2008 crisis, Canadian banks were some of the best in the world when it came to recovery mode. Even if a recession is in our midst, you can be fairly certain that these banks will indeed rebound.

You'll also get a benefit from Canadian bank ETFs because as you don't get a dividend (as they're reinvested), which are paid quarterly, you'll get a distribution that's paid monthly!

Today, I'm recommending **BMO Covered Call Canadian Banks ETF** (TSX:ZWB) as my choice in ETF. Again, it covers the six largest Canadian banks, but it has a few other things going for it as well.

First off, BMO offers a cheap, low-risk option as an income-enhancing strategy from sell call options. While it's capped by the strike price of the call options, that shouldn't be a worry as if the market is fairly valued, which should protect investors from a strong move in either direction.

The ETF also has equal exposure to all six banks, so that if one does poorly, the others should make up for it. And again, rather than get those dividends investors receive a distribution yield of 5.2% at the time of writing. However, this also means if one does *really* bad this could have meaningful impact on the ETF's performance.

There are some negatives to consider in addition to this. While covered calls give you extra income, they are also subject to capital gains. Investors could also be overexposed to the financials sector with this particular ETF, which could mean volatile swings in performance.

But overall, BMO's ETF should provide investors with some protection as markets begin to become volatile yet again. While it has dipped with the markets historically, it has a history of quickly rebounding as well. Most recently, it dropped to $16.75 back in December, only to return to its current range at writing of $18.42 that it saw last October.

Compared to the **S&P/TSX Composite Index**, it's no contest price-wise. BMO's current share price of $18.42 is far away cheaper than the $16,386.36 that investors have to purchase per share. To be honest, both options would be hit by market volatility. So the smaller investment is probably the better one.

Bottom line

An ETF can give you a foot in the door into the market sector of your choosing. As a new investor, Canadian banks offer an excellent way to create a steady and stable investment portfolio. The BMO ETF simply offers some monthly income along with that steady growth.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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