



Lazy Investors: Which S&P 500 Index ETF Is Best for You?

Description

Many investors have little interest in picking stocks. Or even if they do want to pick stocks, they want to do so more to play around with a portion of their portfolio and not risk the rest.

Warren Buffet, who is arguably one of the most successful investors of all time, has frequently stated that most investors should not even try to invest in individual stocks. Trying to get to know the companies can be extremely time-consuming, so he suggests the average investor should invest in an index fund or ETF that tracks a major index like the **S&P 500**. If you don't want to pick and choose stocks for the majority of your portfolio, this could be the best way to go.

But, unfortunately, the ETF industry has gotten so complex that even this simplified method of investing has developed more complexity over time. Depending on your investing situation, each of the following ETFs has different structures and cost mechanisms that may work better for you.

iShares S&P 500 Index Fund CAD-Hedged ([TSX:XSP](#))

This Canadian-listed ETF is the best choice for individuals who believe that the Canadian dollar is going to appreciate against the U.S. dollar. The hedging mechanism takes out some of the volatility and risk of foreign exchange risks, making this a somewhat smoother ride for Canadian investors.

This ETF is one of the oldest S&P 500 ETFs listed on the TSX, so it is quite large and liquid. It also has a reasonable management expense ratio (MER) of 0.11%, so even with the CAD hedging service, the ETF remains quite reasonably priced; this ETF has a 1.57% at the current unit price.

Vanguard S&P 500 Index ETF ([TSX:VFV](#))

The VFV is an excellent choice if you want to mimic the performance of the [S&P 500](#) while purchasing it in Canadian funds. The ETF is also quite large and liquid, so it's comparable to that which is offered by the XSP. It is also not hedged to the Canadian dollar, so exchange rates will have more of an impact on returns. Currently, the falling Canadian dollar has had a positive impact on the ETF, increasing the dollar value of the US holdings in the ETF.

This ETF has a slightly lower MER of 0.08%, so it's a cheap option for U.S. dollar exposure. This ETF is perfect for investing in a TFSA where you will collect a small amount of income along with the growth from the underlying stocks. The ETF has a 1.37% dividend at the current unit price.

Horizons 500 Index ETF ([TSX:HXS](#))

If you're not looking to generate income off of these ETFs — and let's face it, these are not big income generators — then the HXS is the best ETF to hold in a taxable account for the long term. There is no dividend, which makes this the most [tax-efficient](#) long-term holding of this class in Canada. This ETF uses a series of swap agreements and therefore does not actually hold the existing stocks in the way that the other ETFs do. It does, however, allow the ETF to very closely track the performance of the S&P 500.

The cost of this ETF is very cheap, both from the MER and the tax implications. Because of the ETF structure, investors will not pay tax on the holding until you sell your units. At that point, they will be taxed as capital gains, which are more favourably taxed than dividends, especially U.S. dividends from the companies in the TSX. At 0.10%, the ETF is also quite cheap.

The takeaway

Which ETF you choose largely depends on the use of your ETF and where you plan to hold it. Personally, I hold the VFV in a registered account in order to get a small amount of income within the tax-protected structure while hopefully benefiting from a falling Canadian dollar. I believe the Canadian dollar will remain weak, making this the choice for me.

However, if you want to eliminate the annoyance of foreign exchange, pick the XSP. If you hold this in a taxable account, the HXS is probably your best choice. But no matter what, all three ETFs are low cost ways to get the U.S. stock diversification your portfolio needs in a low-cost manner.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:HXS (Horizons S&P 500 Index ETF)
2. TSX:VFV (Vanguard S&P 500 Index ETF)
3. TSX:XSP (iShares Core S&P 500 Index ETF (CAD-Hedged))

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Author

krisknutson

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