TFSA Investors: An ETF That Could Earn You $1000 a Month Tax-Free

Description

Have you ever found yourself torn between index investing and dividend investing?

While index funds are widely touted as some of the safest equity investments in the world, their dividend yields are often less than inspiring. The **TSX** has an average yield of about 2.7% at the moment, which is much lower than what you'd get with any Big Six bank stock. Granted, that 2.7% is better than bond interest and slightly ahead of inflation. However, it's certainly not a yield that will turn your TFSA into an overflowing river of gold.

Traditionally, Canadian investors have had two solid options for high income: bank stocks and REITs. And indeed, these two sectors have some great income plays right now. Banks are yielding about 4% on average, while REITs can reach as high as 8%. However, with bank stocks starting to slump and Canadian real estate plummeting, it may not be the best time to venture into individual banks and REITs.

But if you're seeking high income and safety in one package, there may yet be hope. There's a Canadian index ETF out there with an ultra-diversified portfolio and an average yield of 4.29%. This ETF gives you the kind of yield you can rarely find from index funds, boasting a reasonably low management fee of 0.5%.

iShares Canadian Select Dividend Index ETF (TSX:XDV)

The **iShares Canadian Select Dividend Index ETF** is a fund that seeks to emulate the performance of Canada's highest yielding stocks. The fund has 32 holdings in total, so it's relatively well diversified, yet concentrated enough to ensure every single stock has a high yield. The stock's average yield right now is 4.29%, so you'll get a higher payout on it than you would from most bank stocks.

What's in the ETF?

The Canadian Select Dividend Index ETF is most heavily weighted in bank stocks, as you might expect. In light of this you might ask, *“why shouldn’t I just buy a bank?”* There are two answers here: one, the Canadian Select Dividend Index ETF gives you built in diversification; two, it also includes some non-bank stocks like telcoms and utilities.

So what you’re getting here is a high dividend ETF that’s mostly weighted in banks with some other high yield sectors thrown in for good measure. REITs are mostly lacking, which is probably a good thing given the state of the real estate industry at the moment.

Foolish takeaway

For investors looking to protect against market volatility, it’s good to keep the two Ds’: dividends and diversification in mind. Dividends provide a cash buffer against market downturns, while diversification helps counteract losses in any one stock with gains in others. With the iShares Canadian Select Dividend Index ETF, you get both. The only drawbacks are that the fund’s fees and MER are a little higher than you’d get with certain other funds, and the historical gains are fairly lacklustre.

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1. TSX:XDV (iShares Canadian Select Dividend Index ETF)

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Date
2025/07/17
Date Created
2019/05/14
Author
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