Top 3 ETFs for 2020

Description

It might not seem like it, but we're at the tail end of 2019. By the looks of it, 2020 is shaping up to be an interesting year already. Experts expect a global recession. I will be closely monitoring Britain's economy in its first post-Brexit year, the outcome of the Canadian election, and the run up to the U.S. presidential race.

2020's volatility could offer plenty of excellent opportunities for some long-term and broad-based bets. With that in mind, here are three exchange-traded funds (ETFs) that I believe Canadian investors should watch closely.

For income seekers

If the underlying investment strategy for **BMO Canadian Dividend ETF** (TSX:ZDV) holds up, it could be one of the best income-oriented ETFs to buy next year.

ZDV has been created with two simple objectives in mind: maximize income and minimize risk. The team achieves this by following a strict set of guidelines on the growth rate of dividends, payout ratios, and effective yield while picking stocks. At the moment, the portfolio includes 50 stocks with a track record of stable dividends and low volatility.

The ETF's 4.93% dividend yield may not be as impressive as some real estate investment trusts or telecom stocks, but investors have the opportunity to mitigate their risks through the fund's diversification.

In fact, ZDV seems to have one of the most diversified portfolios on the market, with its largest holding contributing only 3.26% of the overall total and exposure to the financial sector being limited to 34%.

For growth seekers

Growth stocks tend to have the largest declines when a recession or economic downturn hits. Investors tend to abandon overvalued companies when it seems like the sky is falling. However, these downturns offer some rare opportunities to buy growth stocks at reasonable valuations.

My preferred growth fund is **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT). Technology stocks, like the ones included on the XIT portfolio, tend to have the highest margins and greatest prospects for scale, which is what pushes their valuations to such extremes. These delicate valuations are sensitive to sudden changes in investor sentiment.

During the 2008 financial crisis, for example, XIT lost over half its value in just one year. Since then, the fund has managed to return a jaw-dropping 15.44% annualized return for shareholders.

The fund is currently trading at an all-time high. Any plunge in 2020, triggered by economic distress or investor disillusionment, should be considered an opportunity to buy.

For those worried about Canada’s economy

Investors worried about the domestic economy are justified. Canada is especially vulnerable to a correction in the real estate market, fluctuations in the price of oil, and the fallout from the ongoing global trade war.

If you’re pessimistic about these factors, a safe haven could be just south of the border. The American economy is still the largest and one of the most diversified economies in the world. **iShares Core S&P 500 Index Fund CAD Hedged** (TSX:XSP) offers convenient exposure.

XSP offers exposure to the 500 largest companies in the U.S., while mitigating the currency risk for Canadian investors. Since the end of the financial crisis in 2009, the fund has delivered a 13.04% annualized return. That’s just two percentage points below the highly volatile, tech-focused growth ETF I mentioned above.

The 1.66% dividend yield isn’t nearly enough, but I consider it icing on a remarkably robust cake.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)
2. TSX:XSP (iShares Core S&P 500 Index ETF (CAD-Hedged))
3. TSX:ZDV (BMO Canadian Dividend ETF)

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1. Investing

Date
2025/08/23
Date Created
2019/08/28
Author
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