Passive Investors: Forget Index Funds! You Can Do Much Better With These ETFs!

Description

I have nothing against index fund investing. They're a terrific way for beginner investors to put their money to work, but it worth considering the recent negative points about index funds that have been making headlines of late.

Michael Burry, a man made famous by the movie *The Big Short*, recently noted that index funds are in a bubble. Other articles have slammed index funds as socially irresponsible ways to invest, as they may contain shares of companies that one may not knowingly wish to support. Think cigarette companies, military equipment manufacturers, beer firms, gambling companies, and all the sort.

Moreover, with controversies surrounding particular companies such as **Johnson & Johnson** following its baby powder scandal, many investors may not desire to own shares of the company, no matter how small a position. That essentially rules out the **Dow Jones Industrial Average** and **S&P 500** index funds. And don't even get me started about the perennial underperformer that is the **S&P/TSX Composite Index**!

But the biggest issue I have against index funds is the fact that there's a lack of personal satisfaction involved with owning them. You're settling for average, and while that's not a bad idea if you're a new investor who's more likely to get in their own way through excessive trading and emotion-based investing, it is an unsatisfying way of investing once you've fully grown your investment legs.

Not to knock passive investing, though. Not everybody has time to do their research on individual companies and construct a robust portfolio to give the broader indices a good run for their money. And that's perfectly fine.

What many passive Canadian investors may not know, however, is that there are a growing number of options that go above and beyond plain, vanilla index funds.

Bank of Montreal has a growing roster of low-cost ETFs that have shown tremendous promise with products that are tailored to different types of investors.

There are bond/equity blends of different flavours for ridiculously low management fees that would put similar mutual funds to shame, low-volatility ETFs for risk-averse investors, and passive-income-boosting ETFs that make use of covered call option writing strategies.

If you haven't taken a glimpse of BMO's ETF offerings, I highly suggest you do so, as there are likely low-cost options that can help you do a heck of a lot better than index funds. And, best of all, different combinations of BMO's ETFs will allow investors to leverage different strategies and build a portfolio that tilts the risk/reward trade-off on the investor's side — something that's just not possible with index funds.

Foolish takeaway

There are more options coming for passive ETF investors. Fees are getting lower, the offerings are becoming more attractive, and we're entering an era where passive investing is becoming somewhat more appealing. BMO is leading the charge with its lineup of ETFs, and as the other big banks follow suit by bolstering their own ETF rosters, I suspect passive investors, in aggregate, will obtain far better results over time.

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