TFSA Investors: 2 ETFs to Buy and 1 to Avoid

Description

Index ETFs are among the best investments to buy and hold in your TFSA.

Giving you built-in diversification and low fees, they're the ultimate "set-it-and-forget-it" picks.

Over the years, numerous studies have shown that active fund managers underperform the market most of the time. A recent CNBC story announced that, in 2018, active fund managers had trailed the S&P 500 for the ninth year in a row, citing data from S&P Dow Jones Indices.

That's a pretty persuasive argument for investing in passively managed ETFs. But once you've decided to invest in ETFs, you have to decide which ones to choose. There are hundreds of ETFs out there, each of them catering to a different niche: Canadian markets, U.S. markets, international markets, the S&P 500, the Dow, and the list goes on. Factor in the fact that even among passively managed funds, there are huge differences in fees, and it can seem like a lot to take in.

If you're looking for ETFs to bolster your TFSA, the following are two solid picks with low fees and high diversification — along with one underperformer you should definitely avoid.

Buy: Vanguard S&P 500 Index ETF

Vanguard S&P 500 Index ETF is one of the most popular index funds in the world.

Holding the entire S&P 500 index weighted by market cap, it's about as diversified as you can get.

Over last decade, U.S. markets have done extremely well. When you buy VFV, you're buying an index that has delivered a 78% return over the last five years compared to just 12.83% for the TSX.

Over most available time frames, the S&P 500 has outperformed the TSX on capital gains. That's a case for getting some geographic diversification in the form of VFV. However, the TSX sports a higher average yield, which is where our next ETF comes into play.

Buy: iShares S&P/TSX 60 Index ETF

iShares S&P/TSX 60 Index ETF is an ETF made up of the largest 60 Canadian publicly traded companies by market cap (that is, the S&P/TSX 60 index).

While XIU hasn't delivered quite the returns you'd have gotten with VFV, it has a much higher dividend yield (2.67% for the former vs. 1.3% for the latter). Accordingly, it's a great play to get some income into your ETF portfolio.

Granted, there are some ETFs you can buy that are designed specifically for high yield, but these are usually actively managed and underperform on capital gains. In this writer's opinion, XIU delivers about as good a yield as you can expect from a true index ETF.

Avoid: Horizons Medical Marijuana Life Science ETF

Horizons Medical Marijuana Life Science ETF is one ETF you shouldn't touch with a 10-foot pole.

For a long time, investors had been hopeful about marijuana stocks' prospects in the post-legalization era.

Now, however, after yet another **Canopy Growth** earnings release that showed enormous net and operating losses, it's not looking good. The big weed producers are still posting impressive revenue growth, but it's likely to slow down after legalization moves further into the rear-view mirror.

Additionally, as **CannTrust** showed us this year, regulatory clampdowns can deliver copious amounts of pain to marijuana investors — and there's no reason this story needs to end with CannTrust. Just recently, we saw **Hexo** taking some heat for similar reasons.

Overall, big weed is a sector you want to avoid; you can start by not buying HMMJ.

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andrewbutton