Where to Invest $1,000 in Canadian Stocks in 2020

Description

A young Canadian investor planning to save an extra $1,000 in a Tax-Free Savings Account (TFSA) or a self-directed Registered Retirement Savings Plan (RRSP) in 2020 might face the significant challenge of trying to diversify the relatively small deposit and avoid the common investment mistake of failing to minimize capital risk while one is still starting out (and the account value is still small.)

Investing the total sum into just one individual stock may introduce some very high stock-specific risks to a small portfolio, and if the company underperforms or is hit by an unforeseen mishap or scandal, the losses may be too high to recover from, and this may dampen investing enthusiasm when one is just getting started.

Given this potential scenario, one should consider investing in exchange-traded funds (ETFs) as the better options that enable one to buy a stake in a widely diversified and professionally managed investment fund at a very low expense ratio and with very high liquidity but reduced risk, thus efficiently deploying the capital into the stock market.

ETFs exist in almost every sector and industry, and across asset classes and one is spoiled for choice as to which class to choose from.

Now that the Canadian yield curve remains worryingly inverted at the mid to long duration points (a potential leading indicator of some recessionary pressures at some point in the near future), one would be wise to consider an all-weather economic sector to invest that could still defensively generate some healthy returns during a downturn.

Among the available investment choices, bond ETFs and their gold counterparts could look defensive, but bonds yields are discouragingly too low across all major world capital markets at the moment, while the precious metals do not generate cash flows during the holding period, so I’d skip these in 2020.

Real estate, however, enjoys bond-like cash flows in the form of contracted rentals, while land and buildings have been known to religiously appreciate in value over the long term. I would therefore be inclined to invest the $1,000 in a proven top choice in this sector.

BMO Equal Weight REITs Index ETF

Among the top real estate ETFs in Canada today is **BMO Equal Weight REITs Index ETF** (TSX:ZRE), which was launched back in May 2010 to closely track the Solactive Equal Weight Canada REIT Total Return Index. It has over $660 million in total assets, which grew significantly over the past year from $496 million at the end of 2018.

Being equal weighted, the ETF portfolio tries to avoid the concentration risk associated with individual securities, so it invests an equal proportion of funds under management into constituent securities. The portfolio had a total of 21 holdings at the start of this year and returns have been great since inception.

The fund has generated an annualized return of 10% over the past five years, and 2019 was its best year with a 25.86% in price return and a 25.96% growth in the fund's net asset value.

Management expenses are very low and reasonable with an expense ratio of 0.61% and the fund pays out a monthly distribution that yielded 4.17% during the past year.

It could be a good idea to deploy $1,000 into this historically outperforming fund this year and to diligently keep adding new money to the account for some more years until the portfolio is large enough to cost efficiently justify increased active management and deployments into single favourite stock picks.

Happy investing, Fools.

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TICKERS GLOBAL

1. TSX:ZRE (BMO Equal Weight REITs Index ETF)

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