TFSA Investors: 2 Canadian ETFs to Invest $6,000 in Right Now

Description

Canadians can invest $6,000 in their Tax-Free Savings Accounts (TFSA) for 2020. The TFSA program was launched back in 2009 for individuals over 18 years of age. As the name suggests, TFSA contributions are not tax-deductible. The principal amount contributed to a TFSA as well as any gains can be withdrawn tax-free.

TFSA investors need to be wary of certain rules. You can contribute only up to a certain limit. The contribution limit for 2020 is $6,000; any individual who was over the age of 18 in 2009 but has never contributed to the TFSA can allocate up to $69,500.

In case you overcontribute to your TFSA, Canada Revenue Agency will levy a 1% tax of the highest excess TFSA amount in the month. This tax will have to be paid for each month the excess amount remains in the account.

TFSA is a flexible investment program. The withdrawals are added to your TFSA contribution at the beginning of the following year. For example, if you withdrew $10,000 from your TFSA in 2019, you can invest up to $16,000 in 2020.

While opening a TFSA account is one thing, investors need to allocate funds appropriately to create long-term wealth. Exchange-Traded Funds (ETFs) remain obvious choices for investors with limited risk exposure.

ETFs are well diversified, and here we look at two such funds that can help investors meet their financial goals.

iShares S&P/TSX 60 Index ETF

The **iShares S&P/TSX Index ETF** ([TSX:XIU](#)) has exposure to large-cap, established Canadian companies. It is one of the largest ETFs in the country with high liquidity. This ETF has gained 21.7%in the last year and has grown at an annual rate of 7.2% in the last three years, 6.5% in the last fiveyears and 6.8% in the last 10 years.

The fund started trading in 1990 with an annual return of 7.13% since inception. The XIU is rebalanced quarterly and is currently trading at $26.39.

The top five holdings of the XIU include **Royal Bank of Canada, Toronto Dominion Bank, Enbridge Inc, Bank of Nova Scotia** and **Canadian National Railway** that account for 7.83%, 7%, 5.66%, 4.63%, and 4.56% of the fund, respectively. These five companies account for 29.7% of the ETF.

In terms of exposure, XIU is biased toward financial companies that account for 35.8% of the ETF. The other sectors that comprise XIU include Energy, Industrials, Materials, Information Technology and Communication at 18%, 10.1%, 9.5%, 7.1%, and 6.5% respectively.

In addition to its strong portfolio of companies, XIU also has a dividend yield of 2.93%.

iShares S&P/TSX Canadian Dividend Aristocrats Index ETF

The **iShares S&P/TSX Canadian Dividend Aristocrats Index ETF** ([TSX:CDZ](#)) has exposure to quality dividend-paying companies in Canada. This ETF has gained 26% in the last year and has grown at an annual rate of 6.6% in the last three years, 5.4% in the last five years, and 8.3% in the last 10 years.

The fund started trading in 2006 with an annual return of 6.9% since its inception. The CDZ is rebalanced annually and is currently trading at $29.36.

The top five holdings of the ETF include **TransAlta Renewables, Exchange Income Corp, Alaris Royalty Corp, Inter Pipeline** and **Keyera Corp** that account for 3.66%, 3.29%, 3.27%, 2.69%, and 2.62% of CDZ, respectively. These five companies account for 15.5% of the ETF.

CDZ also has high exposure to financials that account for 22.9% of the ETF. The other sectors that comprise CDZ include Utilities, Energy, Industrials, Real Estate, and Communication at 18.4%, 16.7%, 11.9%, 10.7%, and 7% respectively.

CDZ has a dividend yield of 3.86%, which will attract income investors.

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1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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