ETF or Stocks: Which 1 Should You Choose for 2020?

Description

An imminent recession hitting markets throughout the world has been a matter of discussion for the past couple of years. While we have managed to see through 2018 and 2019 without a significant economic downturn, analysts predict 2020 could be the year it finally hits.

As an investor, you might find yourself re-evaluating your investment portfolio to prepare yourself for a bear market. There are not a lot of places to hide when the stock market crashes. One decision you might want to make is whether it is better to hold exchange-traded funds (ETFs) or stocks during a challenging economic situation.

I'm going to discuss the critical differences between the two, so you can make a well-informed decision.

The case for ETFs

Investing in ETFs is a more passive approach to stock market investment. ETFs reflect the performance of the underlying indices. The performance of those indices depends on the weighted average performance of the underlying bonds or equities. ETFs are essentially a diversified basket of things. It means they are generally less volatile compared to individual stocks.

When you are investing in ETFs, you should look for sectors that offer you decent value, growth, or income. One ETF you can consider is **Vanguard FTSE Canada Index** (TSX:VRE). The ETF is based on an FTSE index as opposed to being a variation of the TSX/S&P Composite.

The FTSE Canada Index is a weighted index representing the performance of large- and mid-market capitalization stocks. The market capitalization-weighted index considers the companies representing three-quarters of the Canadian equity market. Vanguard is the most substantial mutual funds company in the U.S. with an increasing presence in Canada.

The total assets under management for VRE stand at $698.98 million, and its top holdings consist of the likes of the **Royal Bank of Canada** (TSX:RY)(NYSE:RY), **Toronto-Dominion Bank**, **Enbridge**, and several other reliable companies trading on the TSX. Its portfolio is diverse and seemingly secure.

The case for stocks

Investing in stocks is a matter of direct and active management on your part. Investing in individual stocks can offer you excellent returns if the shares of the stock you hold outperform the rest of the index. To this end, you could consider investing in the stock of Royal Bank of Canada.

When you consider a stock like RBC, you are investing in an individual business rather than the collection of companies. The bank provides diversified financial services that include personal and commercial banking, insurance, investor and treasury services, and wealth management. It caters to the need of both domestic and international customers.

The fiscal year ended in October 2019. The company reported a balance sheet with $56 billion in retained earnings. This reflected an increase from $51 billion by the end of the previous fiscal year. It is a remarkable sign for investors. The bank reinvests its surplus to fuel further growth.

The management has a proactive approach when it comes to debt management. It issued $1.5 billion of debentures, offset by the $1.1 billion repayments of debentures. It has a normal course issuer bid in place, meaning that RBC repurchased and canceled $1 billion in common shares. The figure is down from $1.5 billion from the previous year.

Foolish takeaway

It is a challenging decision when you want to decide whether you are going for stocks or ETFs. An ETF like Vanguard offers you a degree of stability due to diversity. An individual stock like RBC, however, can enable you to capitalize on its individual growth. A stronger case for RBC is the fact that it is a dividend-paying stock with a yield of 3.93% at writing.

In an economic downturn, the general stock market can decline. It means ETFs might not be able to fare well. Most stocks are also susceptible to the effects of a stock market crash. Individual stocks, however, can help you stay afloat. It becomes a matter of more active management.

You need to tweak your portfolio, find the right stocks, and if you play your cards right, stocks could fare better in the event of a crash compared to ETFs.

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2. Dividend Stocks
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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)
3. TSX:VRE (Vanguard FTSE Canadian Capped REIT Index ETF)

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