# These ETFs Are the Best Way to Buy Canadian Banks

### Description

If the markets are giving you whiplash this year, you might want to try a strategy that is a little less stressful. Picking individual stocks can be a lot of fun and very rewarding if you get the right one, but they can also be portfolio killers if you get them wrong. The Canadian banks have proven this to be true, with some of them dropping significantly harder than others.

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Take some of the stress out of choosing a specific bank by going with an ETF. This will give exposure to the sector but takes away the need to choose. **BMO Equal Weight Canadian Banks Index ETF** (TSX:ZEB) or **BMO Equal Weight Canadian Banks Covered Call Index ETF** (TSX:ZWB) are great choices. Both of these ETFs will give you exposure to the sector, while eliminating the need to choose the right bank.

## Generous income

For many people, income is one of the main reasons to buy Canadian banks. These have been steady income generators over the years, pumping out yields in excess of 3%. Currently, you can buy Canadian bank shares, such as **Bank of Nova Scotia**, with yields well over 6%. Unfortunately, this exposes you to bank-specific risk.

If you buy ZEB today, you will get a somewhat lower yield than holding a bank itself. The yield on the ETF is about 4.26%, much smaller than each of the big banks. The reason the yield is smaller is due to the fact that there is a fairly hefty, in ETF terms, fee on the units. The management expense ratio (MER) for ZEB sits at 0.55%. That is the price of having **BMO** do the rebalancing of this equal-weight ETF for you.

If you want a larger income from your bank ETF, you should look at ZWB. This ETF has a far more substantial income stream with a yield of 7.35%. The extra yield comes from a covered call strategy, which generates extra premium on your shares. This strategy involves more trades, which generates more fees, so the MER is slightly higher at 0.65%.

## Other benefits

Another benefit of owning the units as opposed to individual bank shares is that they pay out their income in monthly installments as opposed to quarterly. You can get your income at the beginning of every month, helping you to plan if you are using the income for living expenses.

Choosing the ETFs can also be a cheaper way to buy shares, depending on the trading account. In certain brokerages, you can buy ETF shares for free. Over time, you can reinvest those shares in small amounts, never worrying about spending too much on fees.

Also, since the units themselves are cheaper on a dollar basis, you can buy a unit for $13 a share for ZWB or $22 a share for ZEB, making it easier to reinvest your dividends.

## The bottom line

Using ETFs such as ZWB and ZEB can be great ways to buy shares of companies with less bank-specific risk. With the coronavirus threatening our economy, I would lean towards buying ZWB at the moment. It has a higher yield, and the covered call premiums help mitigate the downside. If the economy appears to be turning around, ZEB would be a better call, since you would not be forced to sell shares if the calls are exercised.

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**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
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**TICKERS GLOBAL**

1. TSX:ZEB (BMO Equal Weight Banks Index ETF)
2. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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**Date**
2025/08/26

**Date Created**
2020/04/07
**Author**
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