Millennials: 1 ETF Is All You Need to Retire Wealthy

Description

For young investors like millennials, choosing to invest today rather than letting cash collect dust in low-interest savings accounts can mean the difference between a comfortable retirement and a frugal one. Through the difficult-to-fathom power of long-term tax-free compounding, you may even be able to enjoy a lavish retirement or the freedom to hang up the skates far earlier than 60.

The sooner you start investing, the better. It can transform the retirement pipe dream of many millennials and turn it into an inevitability, even taking into consideration the last two crises that wreaked havoc on the millennial cohort's pocketbook.

You've probably heard that passive investors can do well over the long term by sticking with run-of-the-mill index funds. And you've also probably heard from passive-investing enthusiasts that it's hard to beat the markets consistently over the long term.

Their mantra is, "if you can't beat them, join them." While index fund investing may be suitable for certain people, settling for average may not be the best course of action for many millennial Canadians who are capable of getting better-than-average results over prolonged periods by maintaining the proper temperament.

Moreover, the coronavirus crisis has created a volatile market environment where DIY investors are in a spot to separate the good from the bad. Given the massive uncertainties, Mr. Market is likely less efficient at pricing stocks, which means there's more opportunity for self-guided investors to find securities at discounts to their intrinsic value.

Beating the TSX doesn't have to be difficult

Beating the **TSX Index**, which is a poor investment on its own given its lack of proper diversification across sectors, constantly over the long run is possible, especially if you're one to buy stocks while everybody else is panicking amid a crash. In the heat of the moment, the coronavirus crash in February and March was horrifying. It seemed like stocks would continue tumbling, with no recovery in sight, with the word *depression* being thrown around in the mainstream financial media. If you held your nose and bought something amid the carnage, you did ridiculously well over the following months, even if you missed the bottom by a wide margin.

As it turned out, the coronavirus crash was one of the best buying opportunities in recent memory. Any attempt to time the bottom, act on emotion or even act based on the economic fundamentals led you to miss out on rapid gains across most overly battered securities. If you were a stock picker, you were also capable of recognizing the difference between securities that were unfairly hit (companies that stood to be minimally impacted by the pandemic) from those that deserved to be hit (companies that were at “ground zero” of the crisis).

One ETF is all you need

Passive investing isn’t all a bad idea at this juncture, though as long as you look beyond the TSX Index to more diversified indices such as the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), which represents consumer discretionaries, utilities, and communication services far better than the TSX Index, which is mostly financials and energy stocks, two of the hardest-hit industries by the coronavirus crisis.

While the low-volatility ETF didn’t live up to its name amid the last crash, I think the one-stop-shop investment is still worth picking up, as volatility is likely to continue for the duration of this pandemic. The ETF also holds some reliable dividend payers that tend to zig when the markets zag, and the management expense ratio (MER) of 0.39% is a low price to pay relative to the better mix of lowly correlated securities and better diversification relative to the likes of the TSX Index.

The ZLB as a play on the return to value

Most importantly, I believe the ZLB is a great play on the return to value. Growth stocks have led the latest upward charge, but once the tides turn, we could witness a growth-to-value rotation that could propel value stocks much higher. If you’re looking for a catch-up trade with lower-volatility value stocks, the ZLB is a great bet, with an overweighting in mature stalwarts, most of which are considered value — not growth — stocks.

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1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)

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Author
joefrenette