3 Top ETFs to Mix in With Your TSX Stocks

Description

The key to any frothy market is diversification. But the answer isn't to spread one's assets too wide. Investors should have a strategy when it comes to reducing portfolio risk across sectors. One way to do this is to consider adding exchange-traded funds (ETFs) to a portfolio. Funds can give the casual investor access to the same markets as individual stocks, but with some risk-lowering benefits.

default watermark

Spreading the risk in a stock portfolio

Vanguard's **Balanced Portfolio** (TSX:VBAL) and **Growth Portfolio** (TSX:VGRO) could fit the bill here. VGRO is an especially tempting pick at the moment for growth investors seeking a quick fix for a weak TFSA. Given the destructive market forces currently at work, growth can be hard to come by. An ETF could be the solution for a low-maintenance portfolio.

VBAL offers the same kind of risk spreading, pays a 2% dividend yield, and ticks a lot of boxes that a TFSA investor needs to tick. This ETF would also be suitable for a retiree looking for a little extra peace of mind. Fed up with checking earnings reports for every Canadian bank? **BMO S&P TSX Equal Weight Banks Index ETF** (TSX:ZEB) has you covered.

Of course, the problem with indexing anything in this market is that sectors are increasingly uneven. What could start out as a flaw in a balance sheet in 2019 has the potential to crater performance in 2020. Anyone who has seen *Jurassic Park* will remember its simplistic breakdown of chaos theory: "A butterfly can flap its wings in Peking and in Central Park you get rain instead of sunshine."

Ratcheting risk versus sleep-easy income

The year 2020 is the "butterfly effect" in action. When related to banks, though, the take-home message is that seemingly small concerns could have big repercussions. Take **Scotiabank**'s exposure to the Pacific Alliance, **TD Bank**'s exposure to the U.S. economy, or **BMO**'s oil exposure. The sudden souring of any one of these areas could drag down an equally weighted bank index.

Conversely, investors holding individual bank stocks could see their picks outperform simply by avoiding competitors' specific downsides. There is also the case to be made against holding ETFs heavily skewed by bonds. Imagine a coming decade characterized by 5% interest rates. In a zero interest-rate policy world, investors leaning too heavily into bonds could come unstuck down the line.

Still, there are definitely a few positives to buying ZEB. Casual investors get a chance to put their feet up and stop scrutinizing earnings reports for Canada's biggest banks, for one thing. There is also the peace of mind that comes from having a segment of one's portfolio managed passively. These investors will have to weigh up yields, though, as ZEB's 4.7% is lower than some individual bankers' dividend yields.

All told, though, investors have a clear path to quick derisking by layering a portfolio with ETFs. A mix of the best individual stocks can be quickly counterbalanced with just a few choice funds. From ZEB to VGRO, there are options available for every kind of investor.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

default watermark

TICKERS GLOBAL

1. TSX:VBAL (Vanguard Balanced ETF Portfolio)
2. TSX:VGRO (Vanguard Growth ETF Portfolio)
3. TSX:ZEB (BMO Equal Weight Banks Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date
2025/06/28
Date Created
2020/08/09
Author

vhetherington

default watermark

default watermark