Not Sure What Stock to Buy? Get This 1 Canadian ETF

Description

Many investors are unsure of picking the right stocks, given the elevated volatility in the market. The pullback in mid-March 2020 sent chills, and the warnings of another crash due to the second wave of COVID-19 is more frightening.

Some analysts are suggesting risk-averse investors consider exchange-traded funds, or ETFs. An ideal choice for the current environment is **Vanguard S&P 500 Index ETF** (TSX:VFV). This Canadian ETF mirrors the S&P 500 Index, which is currently is outperforming the TSX**.**

ETF advantages

An ETF trades like a stock, but instead of trading individual stocks, you're buying and selling a basket of stocks. Under the hood of a stock ETF, for example, are typically stocks for long-term growth. If an ETF tracks a particular stock index, investors get lump dividend payments or reinvestments from the index's stocks.

Assuming an ETF tracks the value of an index such as the S&P 500, the price is market-driven and, therefore, could differ from the assets' prices. Likewise, long-term returns could vary due to expenses and the like.

The most significant advantage of investing in ETFs is that you do away with the task of picking stocks individually. ETFs offer diversification instantly, especially in times of increased volatility.

An option for retirees

Retirees are fearful of wild stock price fluctuations, because it could diminish the value of their investment. A modest income stream will suffice for as long as it can fill their income gap. If you're a would-be retiree seeking capital preservation, a balanced portfolio, and low volatility, an ETF can work to mitigate the market risks.

Whether you're a retiree with a short investment window or a younger investor with a longer one, you still need to evaluate an ETF's standalone merits and investment quality. Also check management costs and commission fees, because it could impact your overall returns.

Passively managed ETF

Vanguard S&P 500 Index Fund is among the most popular index funds in the world. The fund is passively managed and follows a full-replication approach. In terms of a basket composition, it's 99.97% stocks and .03% bonds. As mentioned earlier, it's based on the S&P 500 or the 500 largest stocks in the U.S. by market capitalization.

This ETF, with net assets of $3.26 billion, is an excellent example of diversification. The 11 primary sectors are represented with technology (24.72%), healthcare (14.33%), financials (12.8%), consumer cyclicals (11.32%), and communication services (10.8%) as the top five sector weightings.

The industrial and consumer defensive sectors' weightings are less than 10%, while the weights of the remaining four sectors (utilities, real estate, basic materials, and energy) are less than 3%. On March 23, 2020, the ETF price sunk to a low of $57.12.

Since then, Vanguard has kept rising, as the S&P 500 regains traction. As of October 16, 2020, the trading price is $81.50, or a 43% climb from its COVID-19 low. VTV's performance overview is as follows: 24.49% annual total return in 2019, 10.62% YTD daily total return, 18.72% one-year daily total return, and 14.66% three-year daily total return.

Investors' lookout

Decide whether an ETF aligns with your financial goals. Sometimes it's better to own a single stock than a basket of stocks that lacks quality.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:VFV (Vanguard S&P 500 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/17
Date Created
2020/10/20
Author
cliew