



Canadian Dividend ETFs vs. Dividend Stocks: What You Need to Know

Description

Buying Canadian dividend exchange-traded funds (ETFs) is a simpler way to get decent income from dividends while being immediately diversified compared to building a dividend stock portfolio one stock at a time.

What you need to know about Canadian dividend ETFs

After reviewing five Canadian dividend ETFs, most offer yields of about 4% today. iShares **S&P/TSX Canadian Dividend Aristocrats Index ETF**, which trades under the symbol CDZ on the **TSX**, stood out with a relatively low yield of 3.3%. However, it could compensate you with greater income growth, as it holds Canadian Dividend Aristocrats that tend to increase their dividends.

The expense ratio of the ETFs ranged from 0.21% to 0.66%. **Vanguard FTSE Canadian High Dividend Yield Index ETF**, which trades under the ticker VDY on the TSX, has the lowest expense ratio, while CDZ's expense ratio is the highest. That's a big difference in cost — three times more. A \$500,000 investment in each ETF would imply annual costs of \$1,050 versus \$3,300.

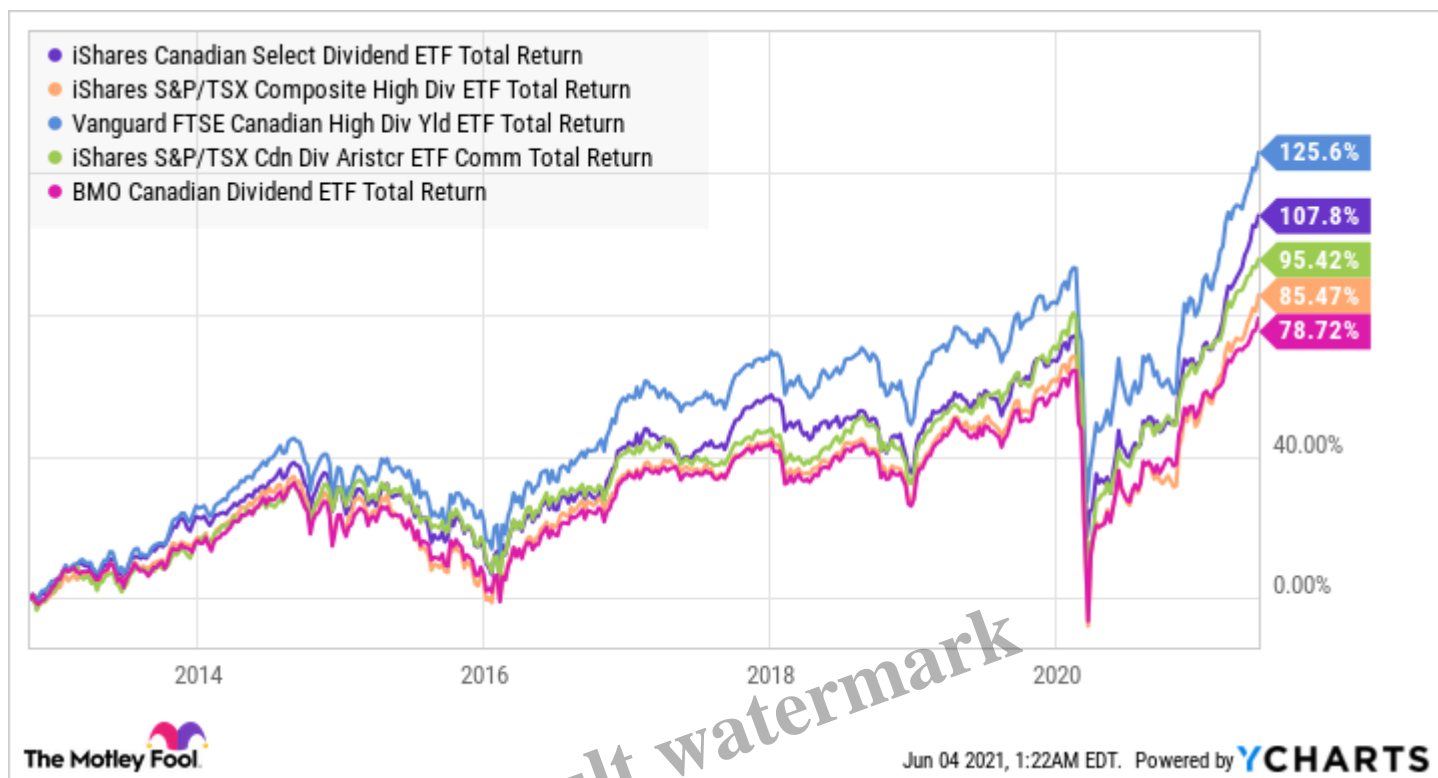
While the Canadian ETFs may be a passive investment for you that you can buy and forget, it's not so passive for the ETFs. Their turnover ratios are from 28% to 64%. Apparently, a turnover ratio of 20-30% suggests a buy-and-hold strategy. A turnover of 28% implies that 28% of the holdings are sold over a 12-month period.

Other Canadian dividend [ETFs](#) that were reviewed are **iShares Canadian Select Dividend Index ETF** with the ticker XDV, **iShares S&P/TSX Composite High Dividend Index ETF** (XEI), and **BMO Canadian Dividend ETF** (ZDV).

Because these Canadian dividend ETFs are driven by a basket of the underlying dividend stocks, they will experience ebbs and flows just like stocks, except they should be less volatile than individual dividend stocks.

Here's a long-term chart displaying their returns. For a buy-and-hold strategy, XEI provided the best

returns. Also notice that they move in tandem. So, there's really no need to hold more than one Canadian Dividend ETF.



Total return level data by YCharts.

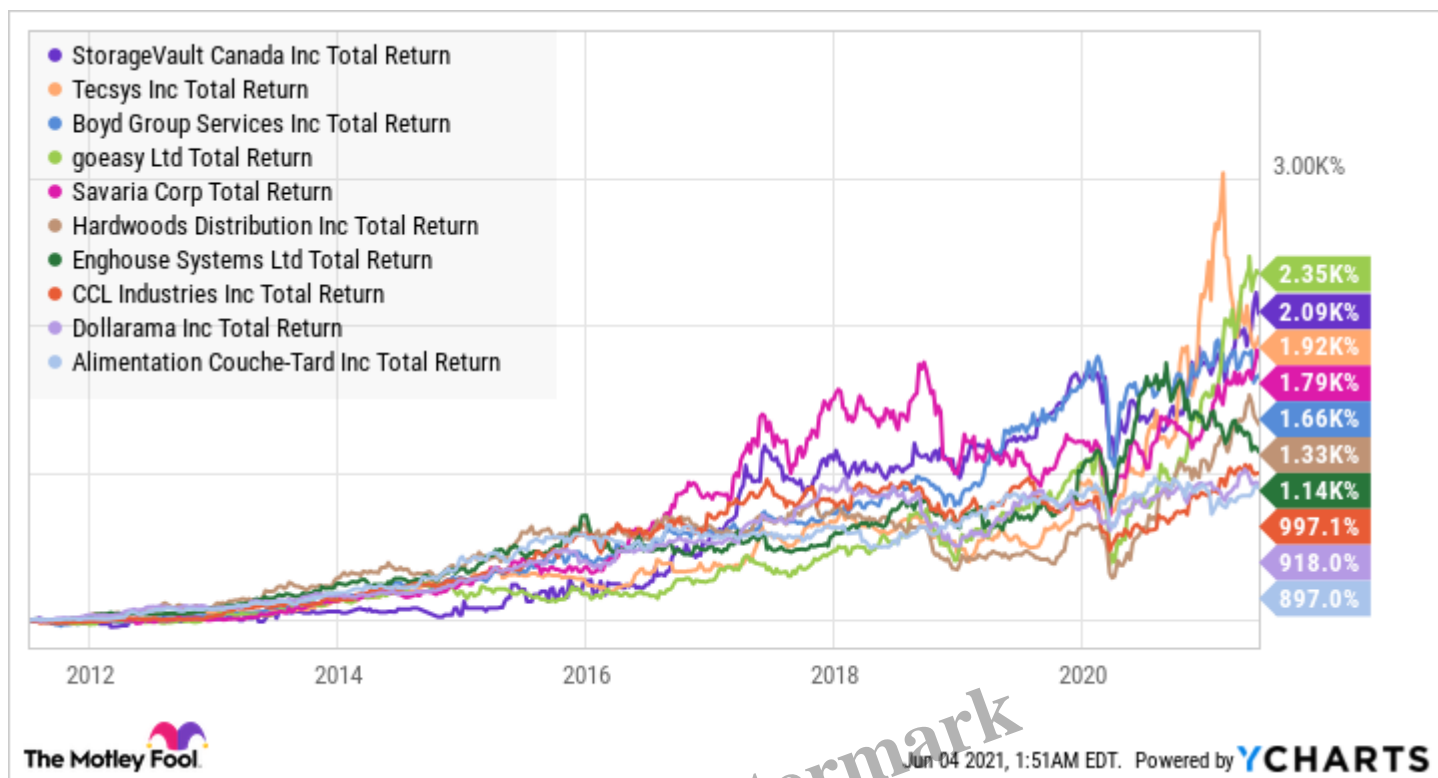
Buying Canadian dividend stocks

It has become increasingly cheap to trade stocks. An online trade costs from \$0 on Wealthsimple to under \$10 at the big Canadian banks.

Once you buy solid dividend stocks, you could hold them forever. Alternatively, you might aim to maximize your gains, income, or total returns by taking (partial) profits. You'll know exactly what you're holding at any time. The turnover is entirely up to you. It could be 0% to 100%.

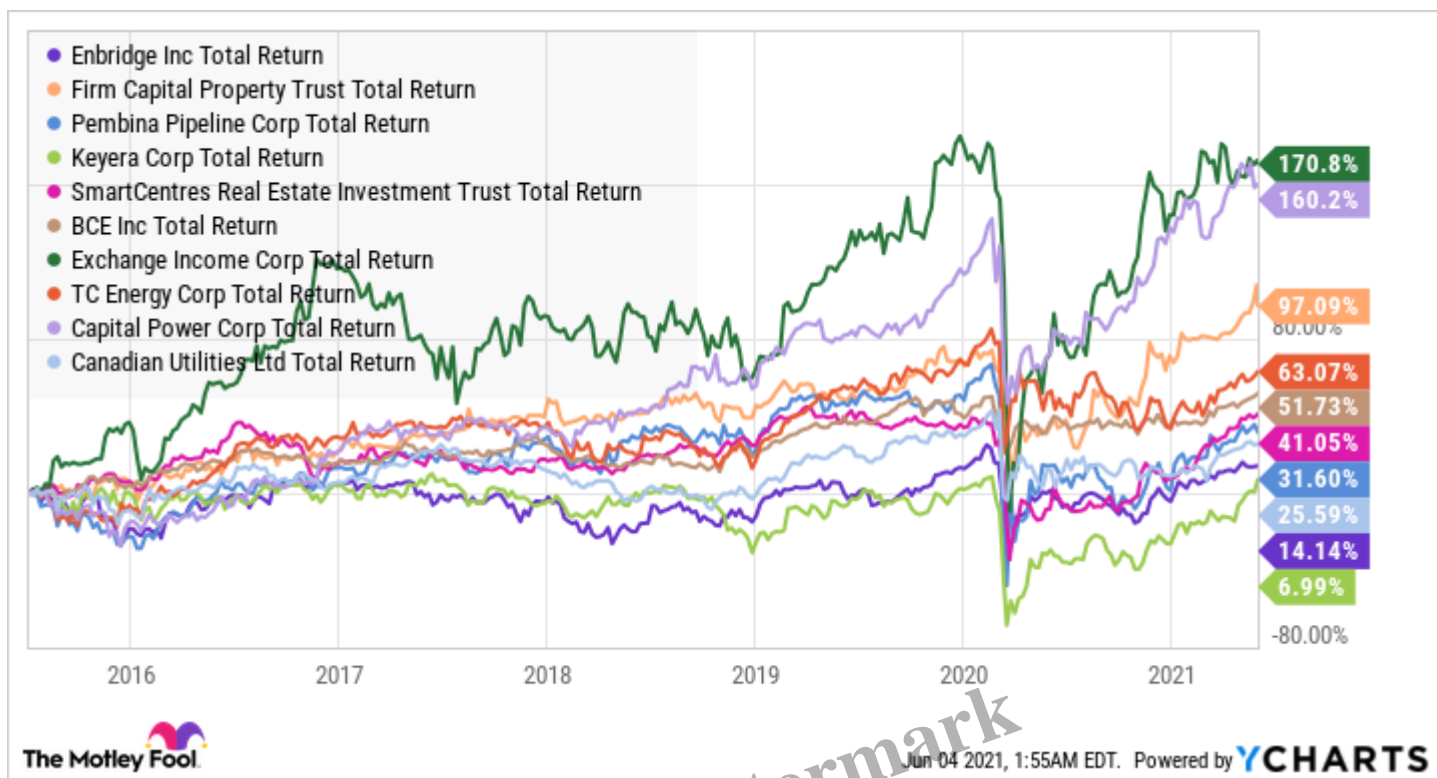
You can put in as little or as much effort and time to manage your dividend portfolio. If you choose a more active investing approach, it could potentially be more rewarding.

For example, here are the current top 10 Canadian Dividend Aristocrats with their returns in the last 10 years. This group has greatly outperformed the discussed Canadian dividend ETFs. However, this is cherry picking, and there's potential for survival bias. One thing to note is that they have small yields, but seven out of 10 have high five-year dividend-growth rates of 11% to 35%.



Total return level data by YCharts.

However, here is the 10-year return of the current highest-yield Canadian Dividend Aristocrats that have traded for at least 10 years. Only three stocks beat or are in line with the ETF returns. It goes to show that high-yielding [dividend stocks](#) could be detrimental to your portfolio returns. For instance, between two companies, the one with a lower yield but higher growth potential could be a better long-term investment.



Total return level data by YCharts.

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