Want to Invest in NASDAQ? 2 Canadian ETFs to Buy

Description

Diversification has time and again proved to be one of the best strategies to maximize returns and reduce risk. One of the most cost-efficient ways to diversify is through ETFs. Even in ETFs, you have a choice like sector-specific, index-tracking, dividend, and international ETFs.

Looking at the March 2020 correction and the movement of the Canadian dollar, Canadian investors with exposure to the U.S. markets benefitted from foreign exchange gains.

The U.S. markets have some of the biggest technology and healthcare companies in the world. Hence, it makes sense to buy into U.S. tech stocks. But which one to buy? If you are bullish on the Nasdaq, two Canadian ETFs can give you exposure to the largest tech stocks trading on the Nasdaq.

Nasdaq 100 Index ETF

A significant valuation of Nasdaq comes from FAAMG (**Facebook**, **Apple**, **Amazon**, **Microsoft**, Google (now **Alphabet**)) stocks. Even after reaching new highs, these stocks continue to grow but at a slower pace. Their slower pace is also above 10%. Even Warren Buffett has his biggest investment in Apple. But if you go to invest in FAAMG and other stocks like **Nvidia** and **Tesla,** which are building history, it will cost you a fortune.

Two Canadian ETFs track the NASDAQ 100 Index ETF and try to replicate the index returns. In the last 12 months, the Nasdaq 100 index surged 39.77%.

- **Invesco NASDAQ 100 Index ETF – CAD hedged** (TSX:QQC.F) surged 38% in the last 12 months.
- **iShares NASDAQ 100 Index ETF (CAD-Hedged)** (TSX:XQQ) surged 38.4% in the last 12 months.

Both the ETFs buy and hold the stocks listed on the Nasdaq 100 index. QQC.F has 48.1% holdings, and XQQ has 49.22% holdings in FAAMG, Tesla, and Nvidia.

How to choose the right ETF

Which ETF to buy depends on the management expense ratio (MER) the ETF charges annually and their tracking efficiency. These two factors won't impact you much if you are investing a small amount for the short term. But a short-term strategy won't give you a sizeable gain.

ETFs are a long-term investment if you want to generate wealth. And if you are investing a large amount for the long haul, even a 0.1% higher MER can reduce your returns significantly. Let us understand this with an example. Here's what it would look like if you'd invested $10,000 each in the two ETFs a year ago:

- Your money in QQC.F would have increased to $13,800. But an MER of 0.26% will convert to $35.9, reducing your gain to $13,764.
- Your money in XQQ would have increased to $13,834. But an MER of 0.39% will convert to $54, reducing your gain to $13,780.

Investor takeaway

The longer you stay invested, the higher would be the impact of the MER. The XQQ has a higher return because its unit price of $111.64 is lower than QQC.F's $117.68. The logic of buying the dip and selling the rally applies here as well. But QQC.F wins on the expense front.

If you are looking to invest for a five-year horizon, QQC.F is a better option as your overall expense will be lower, which will translate into higher real returns.

In the long term, the two ETFs can grow your money multiple folds.

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1. Investing
2. Tech Stocks

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1. TSX:XQQ (iShares NASDAQ 100 Index ETF (CAD-Hedged))

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