4 Top Canadian ETFs to Buy With $400

Description

When you are new to anything, a good strategy is to follow a master that possess market wisdom. If you don't have much time to sit and study the stock market, passive investing is for you. In passive investing, you follow the index and grow with the market. Even Warren Buffett said, "When the dumb investor realizes how dumb he is and buys a low-cost index fund, he becomes smarter than the smartest investors." The most cost-effective way to invest in the stock market is by buying an ETF . Index ETFs buy and sell the shares in an index they are replicating.

Market ETFs won't let you outperform the market, but sector ETFs will. You can diversify your ETF portfolio sector-wise. Make sure you have at least one growth and one dividend ETF, and, if possible, one alternative investment ETF like real estate. Here are four ETFs for a well-diversified Tax-Free Saving Account (TFSA) portfolio.

Information Technology Index

If you want to beat the market, you have to invest in the future, and technology is shaping the future. The Toronto Stock Exchange is skewed towards energy and financial sectors, but tech is gradually picking up. You saw a glimpse of the kind of growth tech stocks can give through **Shopify** and **Lightspeed POS** as well as initial public offerings (IPOs) like **Nuvei** and **Dye and Durham**. All these are high-growth stocks and super expensive to build a portfolio. But **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT) gives you exposure to all four and 15 other tech stocks with future growth potential for $55 per unit.

The ETF charges a 0.61% management expense ratio (MER) annually, which is little compared to the over 20% average annual growth the ETF offers. The ETF has surged over 300% in five years, which is way higher than the TSX Composite Index growth of less than 40%.

High Dividend Yield ETF

While the growth stocks can help you outperform the market, they carry high risk. The ETF diversifies your portfolio to mitigate the downside risk. But you can mitigate this risk further by investing in dividend stocks. Good dividend stocks are mostly the companies that enjoy regular cash flow and have market leadership in their sector. They are essential services like telecoms, financials, and energy. A market crisis might impact their businesses, but the essential nature of their businesses helps them recover alongside the economy.

Vanguard FTSE Canadian High Dividend Yield Idx ETF (TSX:VDY) invests in 39 dividend stocks, mostly large caps. It has 88% of its holdings in the above three sectors. The ETF charges a 0.21% MER, which is more than offset by its 3.82% dividend yield.

TSX 60 Index ETF

The growth and dividend stocks will take care of your investment objectives. But you also need a macro perspective of the changing trends. For instance, the pandemic shifted the tide toward tech stocks, and they dominated the TSX. In the recovery phase, it is time for energy and airline stocks to grow. **iShares S&P/TSX 60 Index ETF** (TSX:XIU) gives you exposure to these changing trends in the overall market by removing the sector bias and letting you flow with the market.

The ETF invests in the top 60 stocks by market cap. These large-cap stocks have a slower growth rate, but they also have a slower decline rate compared to small-cap stocks. With an MER of 0.18%, the ETF can protect you from a single industry's cyclicality.

Energy Index

Energy is a cyclical industry and is now set for growth after a July correction. Canada, having the third-largest oil reserve, will stand to benefit from the reopening of industries and pent-up air travel demand. **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) is in a long-term downtrend. But it surged 70% in the last 12 months on the back of the recovery rally. The ETF corrected 14% last month, as oil stocks fell over concerns around oil supply. This is the right time to buy energy stocks, as a recovery is coming its way with an increase in oil demand. The XEG can give you exposure to the complete energy sector.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

1. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)
2. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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