Canada’s #1 ETF: Why XIU Is So Popular

Description

iShares S&P/TSX 60 Index Fund (TSX:XIU) is Canada’s most popular ETF by a very wide margin. If you look at the *Globe and Mail’s* list of Canadian funds, you will see that XIU is consistently the most traded by a wide margin. For example, as of this writing, XIU had traded hands 15 million times in the preceding day. The second most traded fund, **iShares Canadian Energy ETF**, had a trading volume of just 4.8 million.

So, XIU is far and away the most popular Canadian fund. The question is, *why?* The nearly identical **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC) has almost the same portfolio and a much lower fee. Nevertheless, XIU is more widely owned. In this article, I will examine some reasons why that’s the case.

Historical returns

For whatever reason, XIU has a higher five-year price return than XIC does. Over the last five years, XIU is up 37% over five years, while XIC is up only 33%. It’s not immediately clear why that’s the case. The portfolios are very similar. XIC does have nearly 200 more stocks than XIU does, but the top 60 stocks in XIC have so much weighting that the bottom 190 aren’t much of a factor.

It is known that XIU has a tighter bid-ask spread than XIC does; that could influence the differences in closing prices somewhat, but the effect should be minimal. The important thing to note is that XIU generally beats XIC. With that out of the way, we can look at the second thing XIU has going for it: diversification.

High diversification

XIU is a highly diversified fund compared to many of the alternatives. With 60 stocks, it has enough diversification that it is practically equivalent to the market portfolio. When you have 50 stocks or more, you capture 99% of the risk-reducing effects of diversification — that is, the tendency of large portfolios to remove unsystematic risk, or the risk in individual assets. There are more diversified funds out there, but XIU has enough diversification to ensure risk minimization.

Low fees

Another thing XIU has going for it is low trading fees. With a 0.16% MER, it beats most actively managed funds in terms of cost. It's not necessarily all that cheap compared to other passive funds. XIC, for example, has a mere 0.06% MER. The difference is small enough that you won't notice it, though, and XIU seems to generally outperform XIC over time.

A decent yield

Last but not least, XIU has a decent dividend yield. At 2.5%, it's higher than what you'll find on many actively managed U.S. dividend funds. Of course, that fact is a byproduct of Canadian stocks having high yields *in general.* TSX stocks haven't risen as much as U.S. stocks, so their yields are higher. Nevertheless, there aren't too many indexes out there that are pushing a 3% yield. The TSX is one of the few that exist, and XIU gives you convenient exposure to it.

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