2 Top ETFs for Dividends

Description

Not all dividend ETFs are created equal. Some focus more on yield than they do on dividend sustainability, while others value a good spread of assets over everything else. The frequency of distribution might be quite important for investors as well, especially ones that are using the dividend ETF to start a passive income stream.

Monthly frequency is ideal, but it shouldn't be the deciding factor. However, if almost everything else that two ETFs offer is relatively similar, then a monthly distribution frequency *might* trump a quarterly one.

The right approach when comparing different ETFs for dividends is to take all the factors into account; only then are you likely to find the top pick.

A low-risk ETF

With an MER of 0.7%, the **Purpose Premium Yield Fund ETF** (TSX:PYF) is not a top pick from a cost management perspective. But it might still be worth investing if it fulfills your dividend goals. The current yield it's offering is 5.78%, and distributions are monthly. This ETF also comes with a reasonable and healthy ESG risk rating.

But dividends are the only thing this ETF offers. Its capital appreciation potential, while not non-existent, is not enough to attract investors. The dividends are its forte. The asset mix is quite interesting. Relatively few assets within the ETF are directly held by the fund, and a lot of put options are part of the mix. Cash-covered puts make up over 85% of the total portfolio weight, while the rest are equities.

A high-fee ETF

With an estimated annualized yield of 6.4% and a 12-month trailing yield of 5.1%, the **Horizons Enhanced Income International Equity ETF Class E** (TSX:HEJ) seems like a healthy enough dividend ETF. It also offers monthly payouts, so the frequency works out for investors seeking this ETF for a passive income. The capital appreciation potential is minimal, so the ETF has to be seen mostly through the dividend lens

The dividend-based return potential should also be contrasted with the cost you bear for investing in the dividends, and it's one where the ETF doesn't come out on top. The MER is currently 0.84%. So if you get 6.4% back via dividends, you will have to leave a hefty portion of it in fees.

The best part about the ETF is the geographic diversification it offers. The bulk of the portfolio weight is in the UK, Japan, and France.

Foolish takeaway

The two dividend ETFs can be quite useful elements of a passive income portfolio. They offer a lot of inherent diversification, especially the Horizon ETF, and while the fees are high, they might be bearable if you consider the sustainability trade-off. But if you are looking for decent payouts *and* capital appreciation, these two might not be the right ETFs for you.

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1. Dividend Stocks
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2. TSX:PSU.U (Purpose Fund Corp. - Purpose US Cash ETF)

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Date

2025/06/28
Date Created
2022/01/29
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