2 ETFs for Safety in This Volatile Market

Description

The stock market is nothing if not volatile this year. Stocks opened 2022 in a major sell-off, with the NASDAQ having fallen nearly 10% in January. Big tech stocks released mixed earnings for the fourth quarter, which led to significant volatility. At one point, **Meta Platforms** stock fell 26% in a single day, following an earnings release that slightly missed analyst expectations.

In this environment, even a tiny miss can lead to a market meltdown. Interest rates are rising, and investors are becoming less tolerant of even slight underperformance by big tech companies. To fight the risk, diversification is key. You need exposure to less risky sectors that stand a chance of making it through this volatile period unscathed. In this article I will share two value-based ETFs that could deliver a calmer ride in 2022 compared to tech stocks.

BMO Equal Weight Banks ETF

The **BMO Equal Weight Banks ETF** (TSX:ZEB) is an ETF built on Canada's big bank stocks. It has the same basic holdings you'd get in any index fund that tracks the S&P/TSX Capped Financials Index, but with a twist:

ZEB is equally weighted rather than market cap weighted. By equally weighting the stocks in the fund, ZEB reduces concentration risk. That's the risk that occurs when a single stock becomes a very heavy percentage of an index. Index funds are theoretically very diversified, in the sense that they hold a high number of stocks. However, they aren't necessarily always that diversified on a market cap basis. Sometimes a handful of stocks become an outsized percentage of market indexes. For example, five big tech stocks make up over 20% of the S&P 500. If any one of those stocks show weakness then it could drag the S&P 500 down. The same would theoretically hold true for Canadian banking funds, so ZEB offers a more "truly" diversified way to get exposure to the big banks.

Banks in general are a good asset class for the present market environment because they benefit from interest rate hikes instead of being harmed by them. Higher interest rate hikes have the potential to increase profit margins on loans. It doesn't always work out that way, but it does sometimes, so bank stocks tend to rally when interest rates are rising. That fact makes a strong case for investing in banks in general in 2022. The equal weighting provides a reason to choose ZEB specifically, as few banking funds offer the same kind of diversification.

BMO Equal Weight REITs ETF

The **BMO Equal Weight REITs ETF** (TSX:ZRE) is another **BMO** fund, this one based on REITs rather than banks. REITs are known for offering extremely high dividend yields. This fact is borne out in ZRE's yield, which is 4% — very high for an ETF. Like ZEB, ZRE is equally weighted, which helps with diversification. And, the kinds of companies it owns are not too vulnerable to macroeconomic problems this year. REITs do face a bit of interest rate risk since they have to finance acquisitions almost entirely with debt. However, they can also increase income without new acquisitions by raising rent. So, they are relatively well insulated from the macroeconomic problems plaguing more growth-oriented industries.

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Author
andrewbutton