Top 2 Dividend ETFs for 2022

Description

Your early retirement or passive-income strategy probably hinges on dividends. However, even the best dividend stocks are prone to volatility. For instance, several real estate funds cut their dividends during the crisis in 2020. That caught some retirees and passive-income investors off guard.

To avoid this, your passive-income strategy needs some diversification. A dividend exchange-traded fund (ETF) is probably the best option. Here are the top two dividend ETFs you should keep an eye on.

Growing dividend ETF #2

iShares S&P/TSX Canadian Dividend Aristocrats Index ETF (TSX:CDZ) is a top pick because it focuses on dividend growth. Some companies raise their payout every year for several decades. This indicates a healthy and sustainable business model that can be relied on.

CDZ currently holds 94 high-yield dividend stocks that have boosted their payouts consistently. The largest holding is **Fiera Capital**, which offers an 8.4% dividend yield! Other holdings are spread across the energy, financials, and real estate sectors.

The Dividend Aristocrats ETF currently offers a 3% dividend yield. But that headline yield isn't the full story. Because the underlying companies are steadily expanding, CDZ experiences a decent rate of capital appreciation, too. Over the past 10 years, the fund's total return (capital appreciation and dividends) has been 8.2% compounded annually.

If you're looking for steadily expanding returns over the long term, CDZ should be on the top of your watch list.

High-yield dividend ETF #1

Vanguard FTSE Canadian High Dividend Yield Index ETF (TSX:VDY) was one of the best-performing exchange-traded funds last year. A 40% rally in 2021 affirms strengthened investor confidence. Additionally, the ETF outperformed the overall market, considering the TSX was up by just 20% over the same period.

The ETF tracks the performance of common stocks of Canadian companies — large, mid, and small caps — across various industries. However, the ETF has allocated almost 90% of its funds to large caps, which could be why it outperformed last year.

Its top holdings are in the five big Canadian banks, which account for about 45% of the ETF. Other holdings are spread across energy, commodities, and real estate.

The fund maintains a passive approach that allows investors to generate consistent and reliable passive income. A low management expense ratio of about 0.21% beats out comparable dividend ETFs. A high dividend yield of about 3.8% stands out as one of the most attractive features.

Vanguard FTSE Canadian High Dividend Yield Index ETF is a safe bet for any investor eyeing exposure on some of the biggest Canadian companies. Its diversified portfolio is ideal for shrugging off any shocks in the market. Additionally, the ETF has returned over 150% in dividend-adjusted gains since 2012.

Bottom line

Dividend stocks with high-yields and consistent performance are ideal for passive income. However, there are downside risks for even the most high-quality blue-chip stock. To mitigate this risk, passive-income investors should consider diversified dividend ETFs.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:VDY (Vanguard FTSE Canadian High Dividend Yield Index ETF)

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