



## Diversification 101: 2 Intriguing ETFs to Consider for 2022

### Description

There are so many intriguing ETF options available to Canadians seeking greater portfolio diversification these days. Many will continue popping up on the TSX Index, but only a few are worthy of your investment dollars. Indeed, investors should insist on low, competitive MERs (management expense ratios) and solid strategies to help their portfolios improve upon their risk/reward profiles.

With inflation taking off, the risk-off trade seems to be heating up. Undoubtedly, many market newcomers got hurt chasing high-momentum stocks in the back half of 2020. As retail investors take a step back to consider the risk side of the risk/reward trade-off, I think that a rotation into some of the more unloved areas of the market is more than warranted.

### Top ETFs for an inflation-filled 2022?

Consider energy and precious metals, two beaten-down sectors that could be ready to make up for lost time if 2022 continues to be this volatile. Undoubtedly, speculative growth is seen as toxic by many at this juncture. The stocks that have fallen well over 70% seem dangerous. While there may be some [value](#) to be had in some of the names, trying to catch a bottom doesn't seem wise if you're expecting a turnaround shortly after you've punched your ticket. Catching a falling knife blindly is never a good strategy. Buying dips without a margin of safety present can lead to greater losses. That's why long-term investors should focus on plays that can better hold their own.

With Ukraine and Russia tensions lifting oil prices further, the energy trade that so many gave up on in 2020 is back on. A move above US\$100 for WTI seems inevitable here. Could a rally beyond US\$120 be next? I'd argue it's possible, and, at this juncture, energy-light investors may wish to buy on strength if they're lacking in fossil fuels exposure.

### XEG: iShares S&P/TSX Capped Energy Index ETF

iShares S&P/TSX Capped Energy Index ETF ([TSX:XEG](#)) is a great way to own most of the [big energy plays](#) on the TSX. The ETF surged over 3.5% on Friday on the back of rallying oil prices.

Despite the run in oil, many producers in the oil patch are still trading at compelling discounts. Why? Perhaps memories of negative oil back in the spring of 2020 are still on the minds of investors. In any case, the tables have turned, and I think many producers have yet to factor in a potential boom above the US\$120 mark.

Indeed, many investors ditched their fossil fuel plays as green energy stocks heated up back in 2020. If you lack any energy plays, I'd look to nibble on the XEG, given its instant excess to a sector that could help you dodge and weave through ongoing inflation pressures.

## XGD: iShares S&P/TSX Global Gold Index ETF

It's hard to imagine a scenario where gold prices remain this depressed for long. With so much uncertainty out there today, gold prices could easily make a run past US\$2,000. Indeed, such a move could breathe life back into the ailing miners. **iShares S&P/TSX Global Gold Index ETF** ([TSX:XGD](#)) is one of my favourite ETF picks to play a bounce in gold. The ETF is comprised of some of the more influential TSX-traded gold miners out there. As gold rises, expect the XGD to experience amplified upside.

While it's really hard to predict gold prices, I think that such exposure can only be for further diversifying a portfolio. Unless you're a seasoned commodities trader, don't try to get rich with a significant stake in the XGD or any gold miner. I view it as merely a great way to improve your portfolio's risk/reward in an era of profound macro uncertainty. A 3-5% exposure to the XGD should suffice for most investors looking to hedge their bets in an inflationary environment.

### CATEGORY

1. Investing

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1. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)
2. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

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