



Real Deal to Manage Risk: A Basket of 27 Assets or 1 Big Bank Stock?

Description

Volatility is ever-present in the stock market, although investors have ways to manage risks. An asset class that is slightly less risky is an [exchange-traded fund](#) (ETF). Canada's ETF industry had as superb 2021 despite a tumultuous environment. Assets and net new flows reached \$323 billion and \$53 billion, respectively.

Mark Raes, Product Head at **BMO** Global Asset Management Canada, said the launching of 202 ETFs was also record-breaking. In February 2022, the **S&P/TSX Composite Index** has been erratic because market participants are on edge. Rising inflation is a major threat right now.

Income investors, in particular, need to ensure [uninterrupted income streams](#). **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is a solid option because of its dividend track record. Canada's third-largest bank has been paying dividends since 1832 (192 years).

BlackRock's iShares Canadian Financial Monthly Income ETF ([TSX:FIE](#)) is the alternative if you want [a basket of investments](#) instead of a single stock. Since the multi-asset fund pay dividends, investors can create an income stream too. Assuming you must take a position today, which one is the real deal to manage risks?

Elite financial giant

BNS has a market cap of \$111.87 billion and is a member of the elite Big Five banks. It has been through four recessions since 1962. During the first pandemic year, the share price sank to as low as \$41.98 on March 23, 2020. The bank stock's resiliency was on full display as it closed at \$64.90, or 54.6% higher than its COVID-low.

In fiscal 2021 (year ended October 31, 2022), net income rose 45.3% to \$9.95 billion versus fiscal 2020. Management also announced an 11% dividend hike and the plan to buy back \$1.95 billion shares. President and CEO Brian Porter said the bank is well-positioned to achieve its full earnings power in fiscal 2022.

The bank stock's performance in 49.21 years is nothing short of spectacular, owing to the total return of 212,465.11% (16.85% CAGR). If you invest today, the blue-chip asset trades at \$92.02 per share and pays a 4.31% dividend (46.75% payout ratio).

High-yield ETF

BlackRock is the fund manager of FIE. The fund's investment objective is to maximize total return while providing stable monthly cash distributions. At only \$8.36 per share, the dividend yield is 5.67%.

The portfolio is diversified and consists of common shares, preferred shares, corporate bonds, and income trust units of issuers in Canada's financial sector. As of February 16, 2022, the basket has 27 assets, including shares of BNS. The asset allocation leans toward banks (48.88%) and insurance companies (24.20%).

In the last 3.01 years, the total return is 48.22% (13.98% CAGR). FIE's risk-rating is medium and its main selling point is regular monthly dividend income.

Real deal

BlackRock's ETF appears to have the advantage at first pass. The price is considerably cheaper, while the dividend yield is more attractive. However, the enviable dividend track record (nearing two centuries) means you can buy BNS shares and hold forever. Also, investors can earn two ways, from dividends and price appreciation.

FIE is ideal for frugal investors with short-term financial goals. But for long-term income investors building wealth or securing their financial futures, BNS is the real deal.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:FIE (iShares Canadian Financial Monthly Income ETF)

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