2 Beginner Index ETFs Every New Canadian Investor Should Own

Description

New investors interested in picking their own stock portfolio should stick to a "core/satellite" approach to practice good risk management. This entails

1. Investing 90% in a low-cost exchange-traded fund (ETF) that tracks a major stock market index; and
2. Investing the remaining 10% into various stock picks that you think will outperform the index.

This way, investors can reap most of the market's movements while still having some "fun money" for moonshot stock picks that might do extremely well (or crash and get delisted).

Today, we'll be looking at two index ETFs from **Vanguard** and **Blackrock** that track the **S&P 500** and the **S&P/TSX 60**. Both are regarded as barometres of U.S. and Canadian stock market performance.

The Vanguard option

The S&P 500 is a market cap-weighted stock market index that tracks the 500 large-cap stocks listed on U.S. exchanges, such as **Microsoft**, **Apple**, **Alphabet**, **JPMorgan**, and **Amazon**. It spans the technology, healthcare, financials, communications, consumer staples, industrial, and energy sectors.

To track the S&P 500, you can buy **Vanguard S&P 500 Index ETF** (TSX:VFV). This ETF is extremely cheap, with a management expense ratio (MER) of just 0.08%. The fund has with $6.5 billion assets under management (AUM) and a high volume traded daily.

Being a Canadian-domiciled U.S. ETF, VFV is not currency hedged, meaning that its value can and will fluctuate based on the CAD-USD exchange rate. When the USD appreciates vs. the CAD, VFV will gain additional value, and vice versa. Over long periods of time, this evens out, so it's not worth fretting over.

The BlackRock option

The S&P/TSX 60 is a market cap-weighted index of the largest TSX stocks. Its top holdings consist of blue chips such as **Royal Bank of Canada**, **Shopify**, **Enbridge**, and **Canadian National Railway**. Compared to the S&P 500, the S&P/TSX 60 is more heavily weighted towards the financial and energy sectors.

To track the S&P/TSX 60, you can buy **iShares S&P/TSX 60 Index ETF** (TSX:XIU). XIU is the oldest in Canada, with AUM of $11 billion and high liquidity. XIU is more expensive than VOO, with a MER of 0.20%. This is still considered inexpensive, though.

XIU also pays a respectable yield, thanks to its many underlying Dividend Aristocrat stocks in the energy, banking, telecom, and utilities sectors. Currently, the 12-month trailing yield stands at 2.41% and is paid quarterly. Reinvesting this dividend can significantly boost your returns.

The Foolish takeaway

Both the Canadian and U.S. stock markets are great investments, and no indexes track it better than the S&P/TSX 60 and the S&P 500. For many investors, VFV and XIU are great long-term picks if you can stomach the volatility from a 100% equity portfolio.

However, good investors avoid putting their eggs in a single (geographical) basket. The last decade of U.S. outperformance might mean it's a good time to buy the Canadian index, which outperformed between 2000 and 2010. Therefore, consider buying both VFV and XIU to diversify your holdings a bit.

CATEGORY

1. Investing
2. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:VFV (Vanguard S&P 500 Index ETF)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. tdong

Category

1. Investing
2. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/09/28
Date Created
2022/03/28
Author
tdong