Beginner Investors: 3 Easy Ways to Invest in the Canadian Stock Market Using Index ETFs

Description

Canada has some great blue-chip stocks that make excellent long-term buy-and-holds. However, choosing which one to buy and hold can be daunting, especially for new investors. With over 2,000 stocks on the TSX, how can the average investor know which one to pick?

Keeping up with the news, staying on top of earnings reports, and managing over a dozen tickers can be overwhelming. Buying a diversified portfolio can be costly as well, with some shares costing hundreds or even thousands of dollars. If you're looking to keep investing hands off, this might not be the way to go.

Fortunately, there are a variety of exchange-traded funds (ETFs) out there that take the hassle out of stock picking. For a very low fee and zero effort, you can own various index ETFs that track different aspects of the Canadian stock market. Let's take a look at my top picks today!

The S&P/TSX 60 Index

Up first is **iShares S&P/TSX 60 Index ETF** (TSX:XIU). XIU is the oldest ETF in Canada, with assets under management (AUM) of more than $11 billion and high volume trading daily, giving it excellent liquidity and a low bid-ask spread. The management expense ratio (MER) is 0.20%.

If you want to limit your Canadian stocks to the large-caps, XIU is the ETF for you. The top 10 holdings of XIU contain many solid companies that should be held by Canadian investors for the long term, including many Dividend Aristocrats, giving it a great yield of 2.41%.

Notable holdings include **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Shopify**, **Bank of Nova Scotia**, **Enbridge**, **Brookfield Asset Management**, **Canadian National Railway**, **Bank of Montreal**, **Canadian Pacific Railway**, and **Canadian Natural Resources**.

The S&P/TSX Capped Composite Index

If you want maximum diversification beyond just the 60-largest Canadian stocks, consider buying **iShares S&P/TSX Capped Composite Index ETF** (TSX:XIC). XIC tracks 240 large-, mid- and small-cap stocks, and has top 10 holdings the same as XIU, just with less weighting to them.

Currently, XIC costs a MER of just 0.06% to hold, which is a third of the cost of XIU. The 12-month dividend yield stands at a decent 2.38%, which is close enough to XIU but slightly lower due to the addition of small and mid caps. Otherwise, their long-term performance is almost identical.

The S&P/TSX Composite High Dividend Index

Do you fancy yourself a dividend-growth investor? If so, consider buying **iShares S&P/TSX Composite High Dividend Index ETF** (TSX:XEI), which passively tracks the performance of 76 Canadian stocks characterized by high dividend yields, mostly from the financial sector.

The top 10 holdings of XEI are similar to XIU but also includes high dividend stocks from the energy and telecom sectors like **BCE**, **TC Energy**, and **Suncor Energy**. As a result, XEI has a much higher dividend yield of 3.43%. The MER is slightly more expensive than XIU at 0.22%.

The Foolish takeaway

Canadian stocks should be a mainstay in your investment portfolio. Advantages of over-weighting them (called a home-country bias) include lower volatility, less currency risk, and better tax efficiency in some accounts. XIU, XIC, and XEI will all fit this role well. All three have low fees, excellent volume, and hold some strong stocks. Consistently buying and holding for the long run will reap big gains.

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1. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)
2. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
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