1 TSX Play to Beat the S&P 500 in 2022

Description

There is no shortage of TSX value plays in the Canadian stock market. Even after the **S&P 500** fell into a brutal Q1 2022 correction, there still seems to be more value on this side of the border! As the **TSX Index** marches slowly and steadily to new highs, I think Canadian investors have reason to prefer TSX stocks over U.S. stocks, even as FX rates continue to get more attractive. At writing, the loonie has surpassed the US$0.80 mark.

With strength in commodities, more muted inflation versus the states, and a Bank of Canada (BoC) that could be about to clamp down on 5%-6% inflation, I would not be surprised if the loonie climbed above US$0.82 by year's end. Even then, those seeking value have a lot to pick from over here, and in this piece, we'll check out two intriguing ETFs that make the job of investors so simple.

Passive investing to help beat inflation and the S&P 500?

The number of passive investing products has surged over the years. The ETF boom may have hit Canada later than the U.S., but with so many options popping up, investors should look to the many that cater to their unique needs. Now, if you're a simple investor, you can simply look to the vanilla ETFs and funds with the lowest costs and the highest liquidity levels. The mature ones with the most assets under management (AUM) may be the place to look. But what if you're looking to gain a slight edge over Mr. Market (the S&P 500, not the TSX) that previously could only be gained through individual stock selection?

With so many choices in the ETF scene, the job of doing better than the averages as a hands-off passive investors has never been easier. Consider the specialty-income ETFs like the **BMO Covered Call Utilities ETF** (TSX:ZWU), offered by **Bank of Montreal** that use a covered call strategy.

Now, I'll admit I was never a massive fan of the covered call ETFs, given how strong the markets have been in recent years and the slightly higher price of admission (MERs north of 0.7%). ETFs should be far cheaper than mutual funds, but the cost of writing covered call options do not come cheap!

In bull markets, I'd argue that covered call ETFs are not worth the risk unless you're a jittery investor who hates volatility of any sort! With the U.S. yield curve on the cusp of inversion, though, a recession could strike.

Macro risks are rising. Why not play it safe?

Add the many macro risks into the equation, and I don't think being prepared for a vicious bear market is a terrible idea. I don't see a bear market or recession hitting this year. But I also acknowledge that I, like so many others, cannot predict the future. I know I could be wrong, and in a big way! So, why not have a hedged play in a utility covered call ETF? Yes, utility stocks are still "risky," but I view them as a bond proxy in an era where bonds are less than investable.

To add another layer of defense into the mix, we have the covered call strategy which swaps a bit of upside in the holdings owned in exchange for income right off the bat. In a bear market or a flat, challenging market full of headwinds, the trade could be worthwhile. The magnitude of risk has been raised. So, I do think the BMO covered call ETFs are finally becoming intriguing through the eyes of a broader range of investors looking to be ready for all types of market "weather."

If you're looking to reduce risk, but aren't willing to hoard cash or touch bonds, why not consider the covered call ETFs? They seem built for times like these when it seems like there are no alternatives out there for prudent, conservative investors.

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