2 Cheap ETFs for a Growth-Focused TFSA

Description

TFSA investors who are young should look to hunt down attractively valued opportunities within the growth space. Indeed, the recent selloff in tech and growth could be an opportunity to add to positions in firms that may have been unfairly dragged lower in recent months.

How can you tell the difference between a firm that deserves to be in the penalty box and one that may need a correction to the upside in the future?

For firms that are not yet profitable, that's a hard question to answer. It requires one to look far into the future. With uncertainty surrounding rates, the job of evaluating such firms is really hard. The good news is, you don't need to value such companies if you're not comfortable. You can stick with the profitable companies that are making money today, with earnings growth expected for many years to come.

In this piece, we'll have a closer look at two cheap ETFs with constituents that actually make money. They could help TFSA investors beat the TSX Index in what could be a year full of surprises, both good and bad.

Currently, **BMO MSCI Canada ESG Leaders Index ETF** (TSX:ESGA) and **BMO Equal Weight Banks Index ETF** (TSX:ZEB) are two standout plays for passive investors looking to do well in a year that many seem to be writing off already.

TFSA ETF pick #1: BMO MSCI Canada ESG Leaders Index ETF

First up, we have the ESGA, a basket of Canadian companies that score high ESG ratings. Indeed, ESG matters, not just to young millennials but to TFSA investors who seek to do better over time. I believe that high marks on ESG ratings add value to a firm versus the ones that score lower.

Now down around 6% from its high, I think ESGA is way too cheap for its own good. The sizeable stake in **Shopify** (currently comprising around 7% of the fund) has weighed the fund lower. As such growth plays regain their footing, though, I suspect Shopify and the other intriguing plays in the ESGA basket to rally higher.

Personally, I think the ESGA's top 10 holdings are better than that of the TSX 60, with slightly larger stakes in growthier firms like **Alimentation Couche-Tard** and Shopify.

TFSA ETF pick #2: BMO Equal Weight Banks Index ETF

Up next, we have a simple ETF that's essentially an equal-weighted bet on the Big Six Canadian banks. Indeed, rates are heading higher, and loan growth should continue to be robust, even as the hotter economy cools off at the hands of Bank of Canada's rate hikes.

Is it a Goldilocks environment for the banks? If Canada can avoid a hard landing into a recession this year, I'd argue that, yes, a Goldilocks-like setup could be in the cards. In any case, the recent banking rally has grown choppier. Whether it reverses further is anyone's guess. Regardless, I'd be a buyer of any such dips. At writing, the ZEB is down around 7%. That's excessive in my books, especially given that peak inflation may be closer than we think!

CATEGORY

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1. TSX:ESGA (BMO MSCI Canada ESG Leaders Index ETF)
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