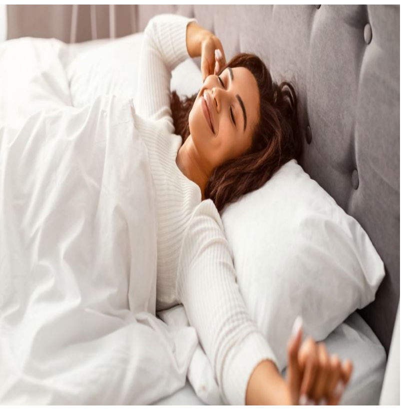

3 ETFs to Sleep Soundly at Night

Description

The stock market is extremely volatile in 2022. The NASDAQ and the S&P 500 are both down for the year, and the TSX, which avoided the carnage initially, is now down as well. This year, central banks are hiking interest rates aggressively, and investors are responding by selling stocks.

It's normal to be nervous in such an environment. People can tout the virtues of "buying the dip" all they want, but things are different if you're nearing retirement age. If you need the money you have invested right now, all of this volatility can be genuinely risky. In this article, I will explore three relatively safe ETFs that should provide you with protection against the market pandemonium now underway.

Canadian banks

BMO Equal Weight Canadian Banks ETF (TSX:ZEB) is a high-yield ETF that exclusively holds Canadian bank stocks. Canadian banks are world renowned for their stability; they notably escaped the 2008 financial crisis without needing bailouts and haven't faced a serious crisis in over 150 years. So, Canadian banking is a good sector for a market like this one. That doesn't mean that bank stocks won't go down. To the contrary, they are going down right now, like almost everything else. But thanks to Canada's wise financial regulations, you should be able to at least count on the dividends you receive from the Big Six banks.

There are many Canadian banking ETFs out there, but ZEB has a unique feature: equal weighting. This means that all of the banks in the portfolio are held in the same proportions, instead of in proportion to their market caps. This weighting scheme reduces concentration risk. When stocks are weighted by market cap, the bigger companies can cause huge losses when their shares go down in price. With equal weighting, this effect is minimized. So, a fund like ZEB arguably has more robust diversification than a conventional market cap weighted fund with the same holdings.

Broad market Canadian stocks

iShares S&P/TSX 60 Index Fund (TSX:XIU) is a broad market Canadian index fund with a 0.16%

management expense ratio (MER) and a 2.5% distribution yield. It isn't the most unique or interesting fund, but it has diversification in spades. Holding 60 Canadian stocks, it is well ahead of the 20 stocks you need to achieve 90% of the diversification benefit. At the same time, it is heavily weighted in large caps, which reduces your exposure to some of the more volatile small-cap stocks on the TSX. Overall, it is a solid core holding for any Canadian's portfolio.

High dividend yields

BMO Canadian Dividend ETF (TSX:ZDV) is a high-dividend ETF offered by **BMO.** It is focused on high-yield Canadian sectors like

- Banking;
- Utilities;
- Telecommunications; and
- Energy.

All of these sectors are fairly cheap and have pretty high yields. According to Morningstar's data on ZDV, the fund's portfolio has the following characteristics:

- A 13.8 P/E ratio
- A 1.87 price-to-book ratio
- A 1.76 price-to-sales ratio
- A 3.63% dividend yield

In today's volatile market, these are the kinds of characteristics you want in your portfolio. Cheap valuations provide a margin of safety that protects against extreme losses, and a bit of dividend income doesn't hurt either. So, ZDV is perfectly suited to 2022's market conditions.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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2. TSX:ZDV (BMO Canadian Dividend ETF)
3. TSX:ZEB (BMO Equal Weight Banks Index ETF)

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