



VFV vs. ZSP: Which S&P 500 Index ETF Is the Better Buy for Canadian Investors?

Description

Welcome to a series where I break down and compare some of the most popular [exchange-traded funds \(ETFs\)](#) available to Canadian investors!

The benchmark S&P 500 Index is down over 13% year to date as a result of rising interest rates and high market volatility. The current correction could be a great buying opportunity though. Thankfully, both **Vanguard** and **BMO Global Asset Management** provide a set of low-cost, high-liquidity ETFs that offer exposure to the S&P 500.

The two tickers up for consideration today are **Vanguard S&P 500 Index ETF (TSX:VFV)** and **BMO S&P 500 Index ETF (TSX:ZSP)**. Which one is the better option? Keep reading to find out.

VFV vs. ZSP: Fees

The fee charged by an ETF is expressed as the management expense ratio (MER). This is the percentage that is deducted from the ETF's net asset value (NAV) over time and is calculated on an annual basis. For example, an MER of 0.50% means that for every \$10,000 invested, the ETF charges a fee of \$50 annually.

Both VFV and ZSP have an MER of 0.09%, making them tied on this front. For a \$10,000 portfolio, either ZSP or VFV will cost you around \$9 per year to hold, which is extremely cheap.

VFV vs. ZSP: Size

The size of an ETF is very important. Funds with small assets under management (AUM) may have poor liquidity, low trading volume, high bid-ask spreads, and more risk of being delisted due to lack of interest.

VFV has attracted AUM of \$6.6 billion, whereas ZSP has AUM of \$9.9 billion. Although both are

sufficient for a buy-and-hold investor, ZSP is currently the more popular ETF among Canadian investors.

VFV vs. ZSP: Holdings

Both VFV and ZSP track the S&P 500 Index, comprised of the largest 500 companies listed on U.S. exchanges, diversified across various sectors like technology, health care, financials, communications, consumer staples, consumer discretionary, industrial, and energy. The index is widely seen as a barometre for overall U.S. stock market performance.

Both ETFs therefore hold the same underlying stocks, but in different ways. ZSP elects to actually purchase all 500 of the index's stocks in their corresponding proportions. VFV simply holds its U.S. ETF counterpart as a "wrapper." The structure doesn't make a discernible difference for investors, but it's good to understand.

Something else to note here is that neither ETF is currency hedged. The underlying stocks of the S&P 500 trade in USD. When you buy a Canadian ETF, the difference between the CAD-USD pair can affect the value of the Canadian ETF beyond the price movement of the underlying stocks.

ETFs that are unhedged accept this phenomenon. What that means is if the U.S. dollar appreciates, the ETF will gain additional value. Conversely, if the Canadian dollar appreciates, the ETF will lose additional value. This introduces extra volatility that could affect your overall return.

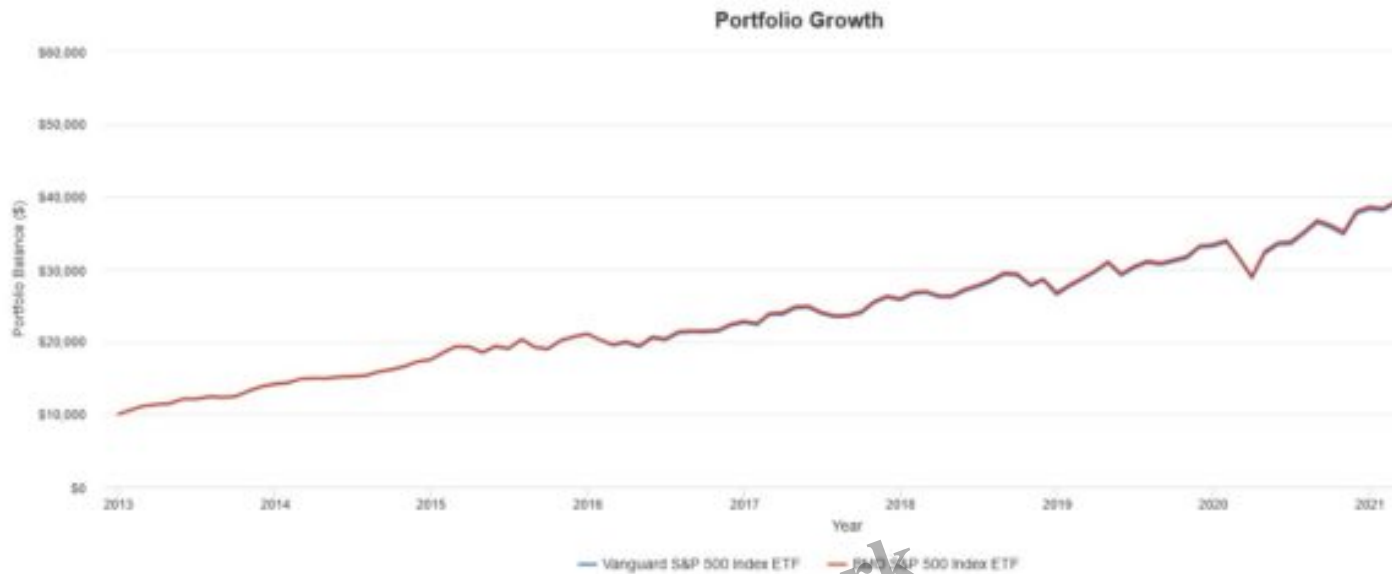
This has been the case with VFV and ZSP, with the rising U.S. dollar causing both to beat their U.S. ETF counterpart over the last decade.

VFV vs. ZSP: Historical performance

A cautionary statement before we dive in: past performance is no guarantee of future results, which can and will vary. The portfolio returns presented below are hypothetical and backtested. The returns do not reflect trading costs, transaction fees, or taxes, which can cause drag.

Here are the trailing returns from 2013 to present:

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown
Vanguard S&P 500 Index ETF	\$10,000	\$43,107 ¹	16.95% ²	12.15%	40.91%	-11.71%	-14.78% ³
BMO S&P 500 Index ETF	\$10,000	\$43,535 ¹	17.07% ²	12.04%	42.09%	-11.68%	-14.67% ³



Here are the annual returns from 2013 to present:



ZSP very slightly outperformed during this period. I attribute this to tracking error on Vanguard's end. Over the long run, their performance is likely to be identical.

The Foolish takeaway

It's a coin toss here. Both ETFs have identical management expense ratios and performance. The only difference here is AUM, and that gap isn't significant enough to choose ZSP over VFV. If you're fond of BMO, pick ZSP. If you idolize Jack Bogle, buy VFV.

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