XQQ vs ZQQ: Which NASDAQ 100 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 tech-heavy NASDAQ 100 Index is down over 22% 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 **BlackRock** and **BMO Global Asset Management** provide a set of low-cost, high-liquidity ETFs that offer exposure to the NASDAQ 100.

The two tickers up for consideration today are **iShares NASDAQ 100 Hedged to Cad ETF** (TSX:XQQ) and **BMO NASDAQ 100 Equity Index ETF (CAD-Hedged)** (TSX:ZQQ). Which one is the better option? Keep reading to find out.

XQQ vs. ZQQ: 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 XQQ and ZQQ have an MER of 0.39%, making them tied on this front. For a $10,000 portfolio, either ZQQ or XQQ will cost you around $39 per year to hold.

XQQ vs. ZQQ: 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.

XQQ has attracted AUM of $1.72 billion, whereas ZQQ has AUM of $1.34 billion. Although both are sufficient for a buy-and-hold investor, XQQ is currently the more popular ETF among Canadian investors.

XQQ vs. ZQQ: Holdings

Both XQQ and ZQQ track the NASDAQ 100 Index, which is comprised of the largest 100 non-financial companies listed on the NASDAQ exchange. The index is tilted significantly towards mega-cap growth stocks and is dominated by the technology and telecommunications sectors.

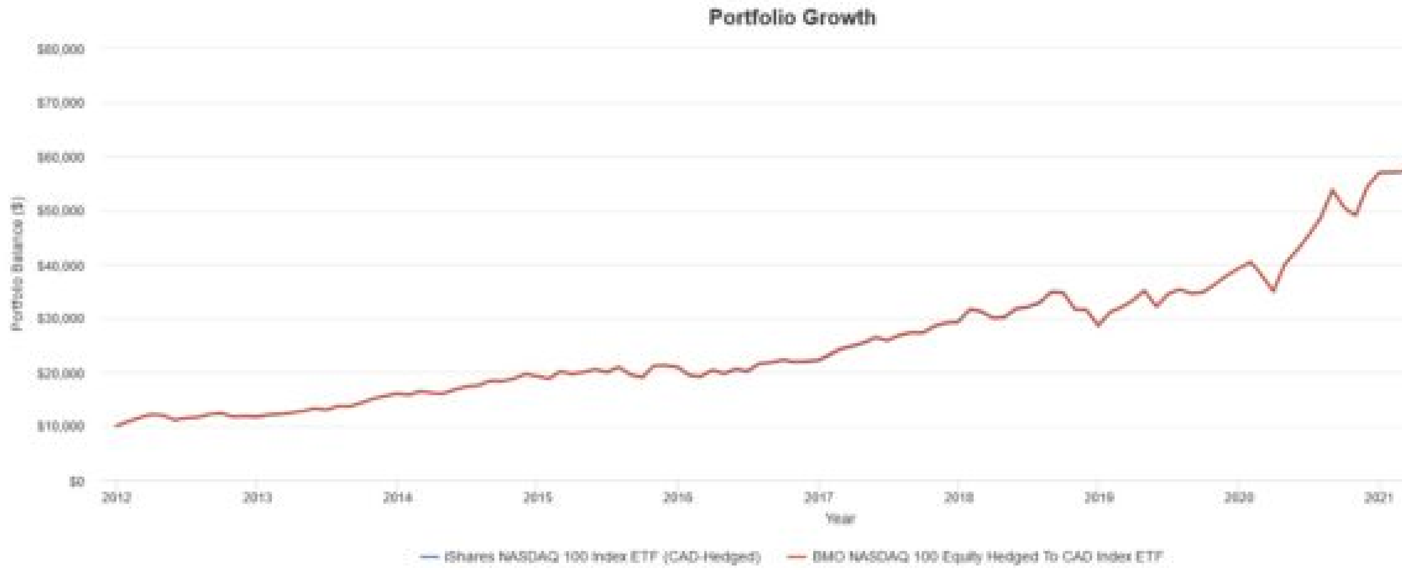
Both ETFs also use currency hedging in their construction. Theoretically, this means that XQQ's or ZQQ's value will not be affected by fluctuations between the CAD-USD. In practice, the imperfect way the currency futures contracts are rolled forwards introduces tracking error, which results in a drag on performance compared to the index.

XQQ vs. ZQQ: Historical performance

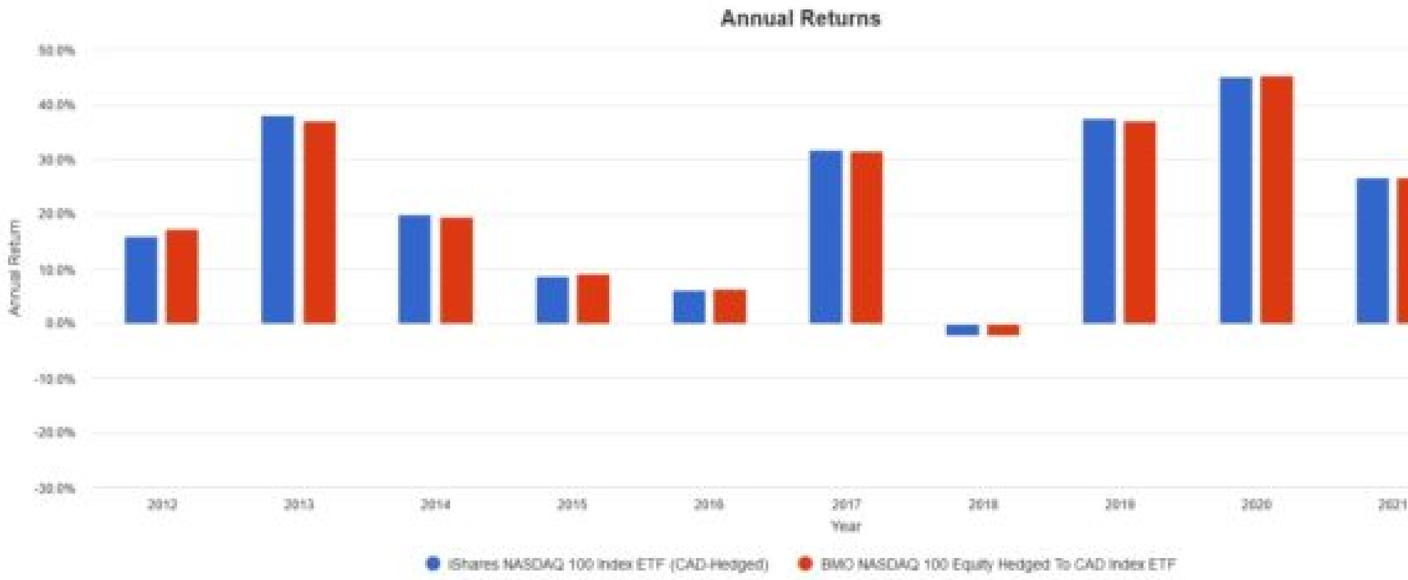
A cautionary statement before we dive in: past performance is no guarantee of future results, which can and will vary. The portfolio returns presented below are hypothetical and backtested. The returns do not reflect trading costs, transaction fees, or taxes, which can cause drag.

Here are the trailing returns from 2012 to present:

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Draw
iShares NASDAQ 100 Index ETF (CAD-Hedged)	$10,000	$56,397	18.22%	16.43%	45.25%	-21.80%	-21.80
BMO NASDAQ 100 Equity Hedged To CAD Index ETF	$10,000	$56,450	18.23%	16.33%	45.33%	-21.83%	-21.83



Here are the annual returns from 2012 to present:



XQQ and ZQQ performed identically, as expected from well-managed ETFs from notable fund providers. A lack of tracking error as seen here is always a positive sign.

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 XQQ over ZQQ. Honestly, I would just pick whichever one sounds cooler at this rate.

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tdong