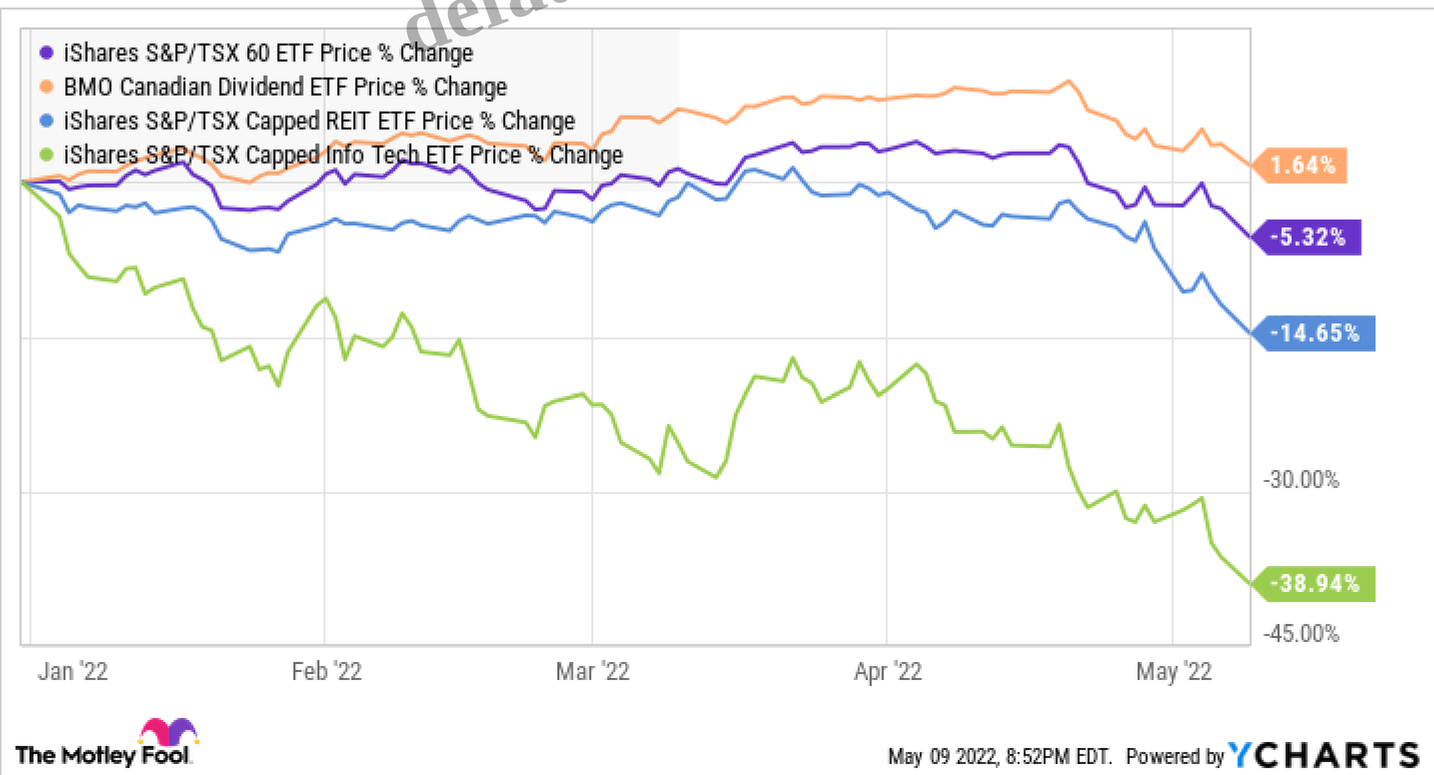
Bear Market: Can You Protect Your Money With ETFs?

Description

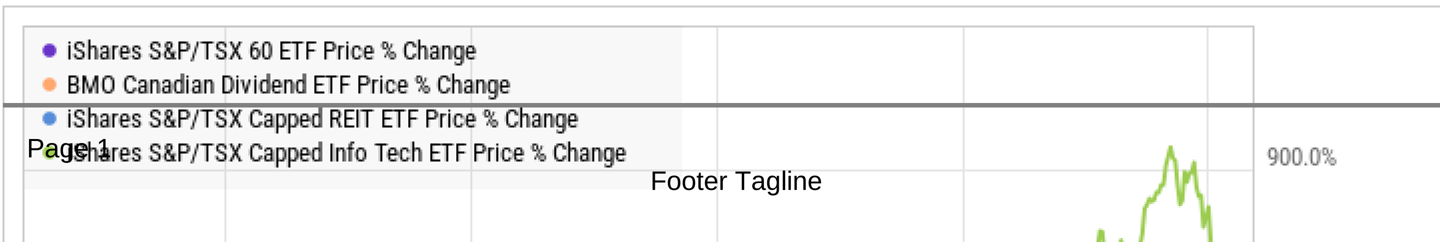
Investors who invested in the stock market within the last six months are probably under the water, particularly if they invested in growth stocks. Will your money be better protected invested in exchange-traded funds (ETFs)?

It depends on which funds you place your money in and the kind of market we're in. Let's take a look at the following graph for the year-to-date price action of several ETFs as an example.



XIU, ZDV, XRE, and XIT data by YCharts

And here's a long-term price chart across these funds for a bigger picture.



XIU, ZDV, XRE, and XIT data by YCharts

I used **iShares S&P/TSX 60 Index ETF** as a Canadian stock market proxy. In today's rising interest rate market, **BMO Canadian Dividend ETF** (TSX:ZDV) has been holding up better. The ZDV ETF provides exposure to about 51 dividend-paying stocks and offers a decent yield of over 4%. Its top holdings are large-cap dividend stocks that are easily recognizable, including **Enbridge**, **BCE**, **Bank of Nova Scotia**, **Royal Bank of Canada**, and **Toronto-Dominion Bank**. Its decent income generation and diversification explain why it may have held up better than the market. The ZDV ETF expense ratio is also fair at 0.35%.

iShares S&P/TSX Capped Information Technology Index ETF (TSX:XIT) has been the worst performer year to date by falling about 39%. Pundits are saying that tech stocks are underperforming because of rising interest rates. Rising labour costs are also a noteworthy factor as attracting and keeping tech talent is critical in the tech sector. The increasing borrowing costs should also affect debt-heavy REITs, but the **iShares S&P/TSX Capped REIT Index ETF** hasn't fallen nearly as much.

On a closer look, there was a tech bubble pop, which has triggered a greater decline in the XIT ETF in the near term. Some tech stocks were trading at stratospherically high valuations before. In fact, some tech stocks weren't even profitable.

The XIT ETF essentially pays no yield, but in the long run, it has delivered market-beating returns, as shown in the second graph. Its top holdings include **Constellation Software**, **Shopify**, **CGI**, **Open Text**, and **Descartes Systems**. The ETF's expense ratio is 0.61%, which is still cheap for the immediate diversification it provides in the high-growth sector. Given the right environment, the tech ETF should outperform again. Patient investors with a long-term investment horizon should do well by buying systematically in this bear market.

In summary: Can you protect your money with ETFs?

Buying ETFs doesn't necessarily protect your money. However, it does reduce company-specific risks because of the diversification it provides. Additionally, there are so many different ETFs to choose from such that investors can buy the areas (sectors or geographies) that are undervalued. Currently, it appears that the tech and REIT sectors could be cheap. However, no one knows when the bear market will be over until it's in the rear-view mirror.

Investors are encouraged to invest their money over time, which works well in averaging into a position, leading to an average cost basis that's hopefully lower. With a long-term investing mindset and a selection from a broad range of low-cost ETFs, investors are better equipped than ever before to capitalize on stock prices that tend to appreciation in the long run.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)
2. TSX:ZDV (BMO Canadian Dividend ETF)

PARTNER-FEEDS

1. Business Insider
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3. Msn
4. Newscred
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6. Sharewise
7. Smart News
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kayng