



VEQT vs. VT: Which Vanguard Global Equity ETF Portfolio Is Best 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!

Investors looking for the ultimate passive buy-and-hold investment can pick a single ticker offering exposure to a portfolio of globally diversified equities. **Vanguard** provides a set of low-cost, high-liquidity ETFs in both CAD and USD that offer exposure to the total world stock market

The two tickers up for consideration today are **Vanguard All-Equity ETF** ([TSX:VEQT](#)) and **Vanguard Total World Stock ETF** (NYSE:VT). Which one is the better option? Keep reading to find out.

VEQT vs. VT: 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.

VEQT has an MER of 0.24% compared to VT at 0.07%. The difference comes out to around \$17 annually for a \$10,000 portfolio. Still, VEQT is over three times as expensive as VT, which can make a difference when held for the long term.

VEQT vs. VT: Holdings

Both VEQT and VT track a globally diversified portfolio of equities across large, mid-, and small caps, holding all 11 stock market sectors according to their current market cap weights. However, both funds have differences in terms of their allocations to various geographies.

VEQT chooses to allocate approximately 43% to the U.S. stock market, 31% to the Canadian stock

market, 19% to the developed international stock market, and 7% to the emerging international stock market. Vanguard overweighted Canadian stocks (called a “home-country bias) to reduce currency risk and volatility. VEQT uses a “wrapper” structure, holding various other Canadian and U.S. ETFs.

VT’s composition is similar to VEQT, but without the 30% Canadian home-country bias. The ETF is around 60% U.S. stock market, 20% developed international, and 10% emerging international. Unlike VEQT, VT does not use a wrapper structure. Rather, it actually holds around 9,550 stocks according to each stock’s market cap weight.

VEQT vs. VT: Tax efficiency

Holding VT in an RRSP provides you with tax-efficiency benefits over VEQT. Normally, U.S. stocks and ETFs incur a 15% tax on dividends. However, this does not occur in an RRSP because of a tax treaty with the U.S., allowing you to maximize gains.

Therefore, the 60% of U.S. stocks in VT do not have 15% of their dividends withheld, which boosts tax efficiency. However, the remaining 40% of international stocks are subject to a foreign withholding tax, as Canada only has tax treaties with the United States. The tax drag adds around 0.12% to VT’s expense ratio.

VEQT does suffer from a 15% foreign withholding tax on its U.S. and international dividends, as the ETF is denominated in CAD. Vanguard has tried to mitigate this by including a 30% allocation to Canadian stocks. Overall, the tax drag for VEQT is estimated at around 0.20%.

The Foolish takeaway

If you are comfortable with using Norbert’s Gambit to convert CAD to USD for cheap (which [I covered](#) earlier with a how-to guide) and are investing in your Registered Retirement Savings Plan ([RRSP](#)), you can save significantly by using a U.S.-denominated ETF like VT. Otherwise, if you’re investing in your TFSA or taxable account and want an easy way of buying the entire world’s stock market, VEQT is the better buy.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:VT (Vanguard International Equity Index Funds - Vanguard Total World Stock ETF)
2. TSX:VEQT (Vanguard All-Equity ETF Portfolio)

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