Don’t Push the Panic Button: Move to 2 ETFs Instead

Description

Stock markets in North America, including the **Toronto Stock Exchange**, are starting to lose momentum due to persisting inflationary pressure. Investors are jittery over the tightening monetary policies and declining asset values. Also, economists warn of a global economic recession.

Dan Barclay, CEO of **Bank of Montreal’s** Capital Markets, said, “Interest rate hikes by central banks around the world could fail to arrest recent spikes in consumer prices because they are rooted in post-pandemic supply chain snarls and Russia’s invasion of Ukraine.”

CIBC’s head of global investment banking Roman Dubczak said the job of central banks is even more difficult at this time. The policymakers are unwinding bond purchases to drive down market borrowing rates during times of crisis while simultaneously rising interest rates.

The dilemma of investors is whether to stay away from the market or find safety nets. Some risk-averse investors shouldn’t push the panic button; instead, they should move to exchange-traded funds (ETFs). The asset class have become popular for both risk-averse and laid-back investors.

Among the top picks are **BMO Equal Weight Banks Index ETF** (TSX:ZEB) and **iShares Core Conservative Balanced ETF Portfolio** (TSX:XCNS). Either one can lessen the burden of picking individual stocks or rebalancing a portfolio. Moreover, the pair are dividend payers, so there are recurring income streams.

Solid banking sector

Despite its medium-risk rating, BMO’s ZEB remains a solid pick. The ETF replicate the performance of the Solactive Equal Weight Canada Banks Index. Your exposure is to Canadian banks, particularly the Big Six. At $36.48 per share, the fund is down 5.6% year to date.

The underperformance is understandable, given the prevailing negative market sentiment. To lessen the specific risk, the fund manager maintains nearly equal weights in **RBC** (16.91%), **TD** (17.47%),BNS (16.22%), **BMO** (16.51%), **CIBC** (15.86%), and **National Bank of Canada** (16.81%).

ZEB also pays relatively higher dividends (3.87%) compared to other ETFs. Furthermore, the payout frequency is monthly compared to the quarterly dividend payments of the Big Six bank stocks when held individually.

Basket of ETFs

BlackRock's XCNS is more diversified than ZEB and carries a low-risk rating. The advantage lies in the exposure to a portfolio of ETFs. Each ETF is broadly diversified by asset class and geography. The basket of eight ETFs seeks to provide long-term capital growth and income to would-be investors.

Regarding exposure, the ratio is 60% fixed income and 40% equities. At $20.29 per share, the dividend offer is a modest 1.96% and the payout is every quarter. Since BlackRock have target weights in place, monitoring is continuous and rebalancing is automatic.

Hedge against inflation

ETFs are innovative investment instruments with mostly different invest asset classes, including real estate and cryptocurrencies, in a single basket. The selections on the TSX are wide, and covers various industries or sectors.

ZEB is a solid pick because the exposure is to Canada's top lenders, all of which are bedrocks of stability. XCNS is unique and a broadly diversified owing to the basket of ETFs. Either one should mitigate market risks and provide a hedge against inflation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XCNS (iShares Core Conservative Balanced ETF Portfolio)
2. TSX:ZEB (BMO Equal Weight Banks Index ETF)

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