Market Downturn: 2 Top ETFs to Buy on Dips to Create Serious Wealth

Description

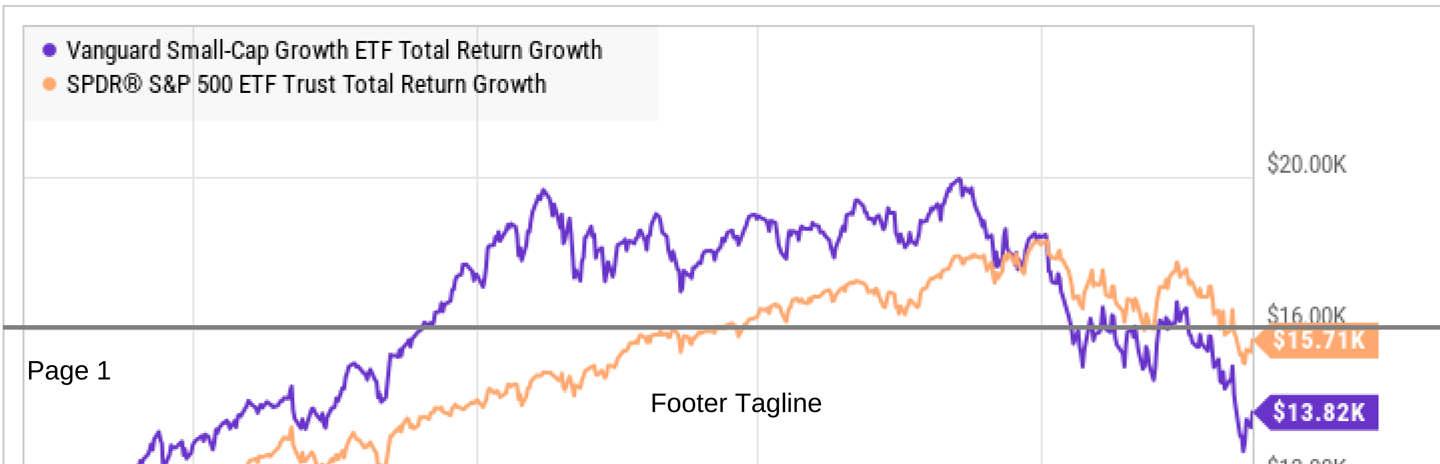
Market downturns can be uncomfortable for investors to ride through. On the flip side, it's also an opportunity. For example, the last market crash during the pandemic witnessed a drop of more than 30% in the Canadian and U.S. stock markets. And from the lows of 2020 to earlier this year, both markets doubled investors' money!

It's impossible to guess the bottom of a market correction or peak of a market. Fortunately, you don't need to buy at the bottom or sell at the peak to make good money. For example, if you'd bought at the midpoint of the 2020 market crash and held until 2022, you could have made at least 50% on price appreciation, which is a substantial gain.

Small-cap stocks can create even greater wealth than the general market on a bear market recovery and then some. Having said that, investing in individual small-cap stocks is super risky. That's where exchange-traded funds (ETFs) come in. What's an ETF? They make it easy for investors to invest by providing diversified exposure to the market or a specific area of the market at a low cost. So, I recommend investors take a closer look at **Vanguard Small Cap Growth Index Fund** (NYSEMKT:VBK).

Small-cap ETFs

Here's a quick comparison of the **S&P 500 ETF** (or SPY) and the Vanguard Small Cap Growth Index Fund since the pandemic market crash. Notice that in the last market recovery, the small-cap growth ETF exceeded the returns of the U.S. market, using the SPY as a proxy. However, it has also fallen harder in the current market decline.



SPY and VBK Total Return Level data by YCharts for an initial investment of $10,000

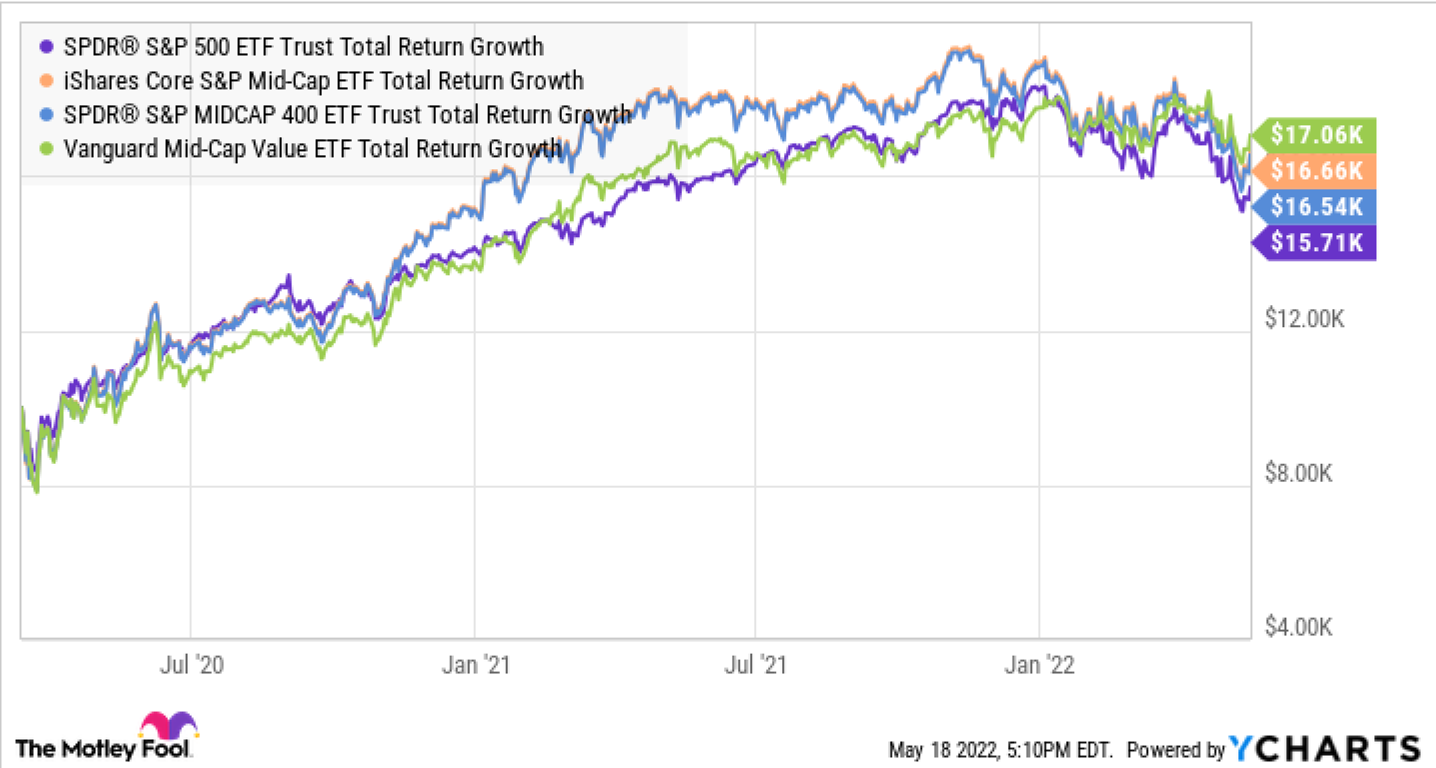
You probably never heard of VBK ETF's holdings. In fact, a bunch of them will cease to exist 10 years from now. However, it wouldn't stop the fund from outperforming just because a big basket of small-cap businesses always grows faster than large caps.

If an investor bought a small-cap stock and it goes bankrupt, it'd probably be a total loss for the investor. However, it wouldn't matter if some VBK holdings disappear, because new small-cap stocks with great potential will take their places in the fund. The small-cap growth ETF is, indeed, diversified. At the end of April, it had 751 holdings with none exceeding 0.80% of the fund. The fund is diversified across sectors as well, including approximately 21% in technology, 19% in healthcare, 18% in industrials, 16% in consumer discretionary, and 9% in real estate.

This fund is not going away. It tracks the performance of the **CRSP US Small Cap Growth Index**. And it has a long history with its inception in 2004. Its net assets of about $28.7 billion are also considerably large.

Mid-cap ETFs

If you just can't place your confidence in small-cap stocks, you can get the best of both worlds — the stability of larger-cap stocks and higher growth of smaller-cap companies — from mid-cap ETFs. Interestingly, the mid-cap ETFs shown below have all held up better than SPY in this period. One could argue that it's because the mid-cap ETFs have experienced greater gains when the market was going up.



SPY, IJH, MDY, and VOE Total Return Level data by YCharts for an initial investment of $10,000

The Foolish investor takeaway

The cloudy crystal ball doesn't tell us when the market will bottom. So, it would be smart for investors to build a position over time. Always ensure you have some dry powder on hand. And, of course, have a long-term focus to benefit from the inevitable market recovery for lucrative price gains.

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Date
2025/08/23
Date Created
2022/05/19
Author
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