



Canadian Bank Stocks Smash Earnings: Buy Them All With This ETF

Description

Canada's Big Six bank stocks have done great so far in 2022. The rising interest rate environment has given these stocks a significant tailwind, boosting their revenues and earnings. Numerous banks announced earnings last week, beating analyst expectations for growth and even announced some dividend increases.

The TSX banking sector has historically outperformed the broader market. **Royal Bank of Canada, Toronto-Dominion Bank, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, Bank of Montreal, and National Bank** have been solid investments for decades.

Together, these banks form an oligopoly, with minimal competition, endless customer bases, and secure profits. Investors can pick and choose which bank stocks to invest in, but a better option might be to buy an [exchange-traded fund \(ETF\)](#) that holds all six bank stocks.

The ETF solution

BMO S&P/TSX Equal Weight Bank Index ETF (TSX:ZEB) holds shares of all six banks in equal weights (around 17% each) in a "basket." When you purchase a share of ZEB, you are getting a slice of this basket, with proportionate exposure to all of its underlying stocks.

The equal weighting of ZEB plus the quarterly rebalancing makes portfolio management extremely simple. If you owned all six bank stocks, you would have to buy the losers and sell the winners every quarter to ensure your portfolio remained balanced.

Rebalancing is important, because it ensures that single stock can grow so large as to overly influence the ETF. This provides diversification and protection against a single stock doing poorly. However, it can be time consuming and costly for some investors.

This is not so with ZEB. The fund managers do all the hard work for you, saving time and commission. In return, ZEB charges a management expense ratio (MER) of 0.28%. This fee is deducted from the net asset value of the ETF on an annual basis. If you had \$10,000 in ZEB, you would pay around \$28

in MER annually.

ZEB also pays a decent distribution yield thanks to its underlying dividend-paying bank stocks. Currently, the annualized yield sits at 3.93%. This distribution is paid monthly, making ZEB great for investors requiring consistent income from their portfolio.

The Foolish takeaway

Investors looking for a hands-off, set-it-and-forget-it approach to investing in Canadian bank stocks can buy ZEB. For a 0.28% MER, you gain exposure to an equally weighted portfolio of Canada's six biggest bank stocks. The fund manager handles the quarterly rebalancing and monthly distributions on your behalf. This makes ZEB a great pick for passive investors who are bullish on the banking sector.

CATEGORY

1. Bank Stocks
2. Investing

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