



VCE vs. VCN: Which FTSE Canada Index ETF Is the Better Buy 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!

Canadian investors taking a [passive approach](#) to buying domestic stocks generally default to tried-and-true **FTSE** indexes, but there are some choices to make. Investors can pick either **FTSE Canada Index** or **FTSE Canada All-Cap Index**. Thankfully, **Vanguard** provides a set of low-cost, high-liquidity, CAD-denominated ETFs that track both.

The two tickers up for consideration today are **Vanguard FTSE Canada Index** ([TSX:VCE](#)) and **Vanguard FTSE Canada All-Cap Index** ([TSX:VCN](#)). Which one is the better option? Keep reading to find out.

VCE vs. VCN: 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, 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.

Both VCE and VCN cost an MER of 0.05%, which works out to be around \$5 annually for a \$10,000 portfolio. Both are therefore tied and extremely cheap. In the Canadian ETF industry, you would be hard-pressed to find a more affordable option.

VCE vs. VCN: Size

The size of an ETF is very important. Funds with small assets under management (AUM) may have poor liquidity, low trading volume, high bid-ask spreads, and more risk of being delisted due to lack of interest.

VCE currently has AUM of \$1.3 billion, whereas VCN has AUM of \$4.9 billion. Although both are more than sufficient for a buy-and-hold investor, VCN is clearly the more popular one. This is due to Vanguard phasing out the older VCE for VCN, the latter of which is advertised more prominently.

VCE vs. VCN: Holdings

VCE tracks the performance of a market cap weighted [index](#) of the 51 largest stocks trading on the **Toronto Stock Exchange (TSX)**, net of expenses. This makes it an excellent barometre for Canadian blue-chip stock performance. If you're bullish on large caps, particularly energy and banking sector stocks, VCE could be a good pick.

However, the Canadian market doesn't end at just 51 companies. What VCE does not include is the +10+ [small- and mid-cap stocks](#) that make up the remainder of the market. These stocks are riskier but have higher potential for growth. Investing in VCN is the way to capture them, as the ETF holds 185 large-, mid- and small-cap stocks, with its top 10 holdings the same as VCE.

VCN is still concentrated in the financials and energy sectors, but there is a more balanced allocation to other sectors such as materials, industrials, technology, utilities, and telecoms as a result of the small and mid-caps. The proportion of small and mid-caps is still small but does introduce additional volatility, so be prepared for slightly higher risk if you choose VCN.

VCE vs. VCN: Historical performance

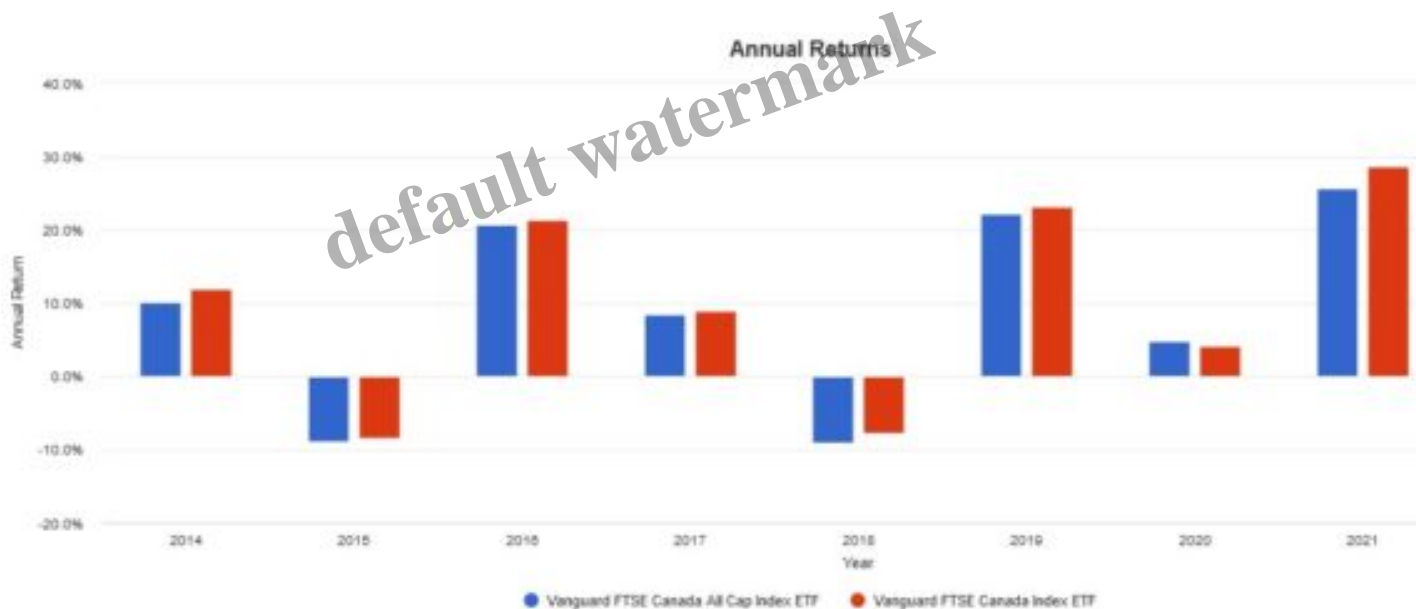
A cautionary statement before we dive in: past performance is no guarantee of future results, which can and will vary. The portfolio returns presented below are hypothetical and backtested. The returns do not reflect trading costs, transaction fees, or taxes, which can cause drag.

Here are the trailing returns from 2014 to present:

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Dra
Vanguard FTSE Canada All Cap Index ETF	\$10,000	\$18,923	7.87%	12.42%	25.65%	-9.12%	-22
Vanguard FTSE Canada Index ETF	\$10,000	\$20,373	8.82%	11.66%	28.68%	-8.51%	-20



Here are the annual returns from 2014 to present:



VCE has outperformed in the last few years. I chalk this up to the excellent performance of Canadian large-cap stocks, especially ones from the banking sub-sector. Over time, I expect these differences to narrow, particularly if mid- and small-caps make a resurgence.

The Foolish takeaway

My pick is for broader diversification. For that reason, VCN is my choice for investing in Canadian domestic stocks. However, if you prefer investing only in large-cap, blue-chip stocks, VCE is a great pick as well. Both have low fees and are from an excellent fund provider.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:VCE (Vanguard FTSE Canada Index ETF)
2. TSX:VCN (Vanguard FTSE Canada All Cap Index ETF)

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