3 Dividend ETFs to Buy for Passive Income

Description

Dividend stocks can be an amazing source of passive income, but the risk of parking a significant amount of capital in a single company, no matter how strong its financials and prospects are, can be too risky for some investors.

A safer, more inherently diverse alternative is a dividend exchange-traded fund (ETF). And if you are looking for ETFs to create a monthly passive-income stream, there are three that should be on your radar.

A laddered preferred share ETF

BMO Laddered Preferred Share Index ETF (TSX:ZPR) follows an index created by Solactive. The ETF tracks the index's strategy and rebalances accordingly. Currently, it's made up of 167 securities — all Canadian. And even though it's primarily a dividend/distribution-oriented ETF and lags when it comes to capital appreciation, it's at least capable of preserving your capital ahead of the inflation line.

Distributions are the ETF's forte. It offers monthly distributions, and the amount has remained almost static since 2017. It has seen few dividend slashes in the last 10 years, but the variance is not too dramatic. The ETF may also grow its distributions. The current annualized distribution yield is at 4.96%.

One main problem this ETF has is the relatively high MER of 0.5%. Even though, at this rate, it would take 200 years to deplete your capital fully, it stands out from other ETFs.

A preferred share ETF

The difference between the BMO ETF above and **Evolve Dividend Stability Preferred Share Index ETF** (TSX:PREF) is that the latter doesn't follow a complicated "laddering" strategy. Ironically, it also follows a Solactive index.

The fund is currently made up of 40 holdings, and the top 10 carry just under 40% of the total weight of the ETF. Insurance companies and energy dominate the top 10. Performance-wise, the ETF is quite similar to the BMO ETF, and, at most, you can expect to stay ahead of inflation.

It's more generous with its distributions and is currently offering a distribution yield of 5.47%. The actual distribution has remained static since its inception (2019), and the stability is a bonus from a passive-income perspective.

A utilities-focused ETF

Harvest Equal Weight Global Utilities Income ETF (TSX:HUTL) offers you exposure to multiple utility types, including telecom and electric utility. It also offers great geographic diversification — something you can't find in the ETFs above that are both Canadian focused.

The bulk of the portfolio is in North America, but a decent bit is also from some European countries. The portfolio consists of about 30 companies that are almost equally weighted.

The ETF is offering a very generous current yield of 6.99%, though the average annual yield is at 4.8%. And even though it carries a relatively high management fee of 0.5%, it's in line with other funds on this list. Plus, a geographically diversified utility portfolio is a healthy long-term holding that you can potentially keep in your portfolio for decades.

Foolish takeaway

The monthly distribution frequency should be considered an added bonus for a passive income. But it's also important to realize the limitations of these ETFs when it comes to *growing* your capital. They can be a great choice from a long-term income-production perspective, but you may have to look elsewhere if you are seeking a different combination of growth and distributions.

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