Best Funds to Buy in a Market Correction

Description

A market correction is in progress. While we never know when it will end, we know that the adage is to buy low and sell high. A buy-and-hold investing strategy may also work well in the case of investing in an exchange-traded fund (ETF) like **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC).

This dividend ETF offers a high yield of close to 7%

The stock market will always be volatile and sensitive to macro factors like changing interest rates and economic health. So, even when investing in the ZWC fund, investors should still be careful not to buy when stocks are expensive, because the fund price will still move up or down in relation to the underlying stock performance.

ZWC's top 10 holdings make up about 48% of the fund with the largest holding making up about 5% of the ETF. Its top holdings include **Enbridge**, the Big Five Canadian banks, **BCE**, **TELUS**, **Canadian National Railway**, and **Manulife**. The ETF pays a monthly cash distribution that yields about 7%. Just having the stocks in the fund cannot produce such a high yield. Its covered call strategy helps support a higher yield in a volatile market by earning call option premiums. So, it's worthwhile for investors to pay a slightly higher management expense ratio of 0.72%.

The BMO Canadian High Dividend Covered Call ETF has net assets of about $1.5 billion, and the fund should be reasonably liquid with an average volume of about 155k. The dividend fund may be suitable for investors who have a risk tolerance for stocks and are seeking income and lower volatility.

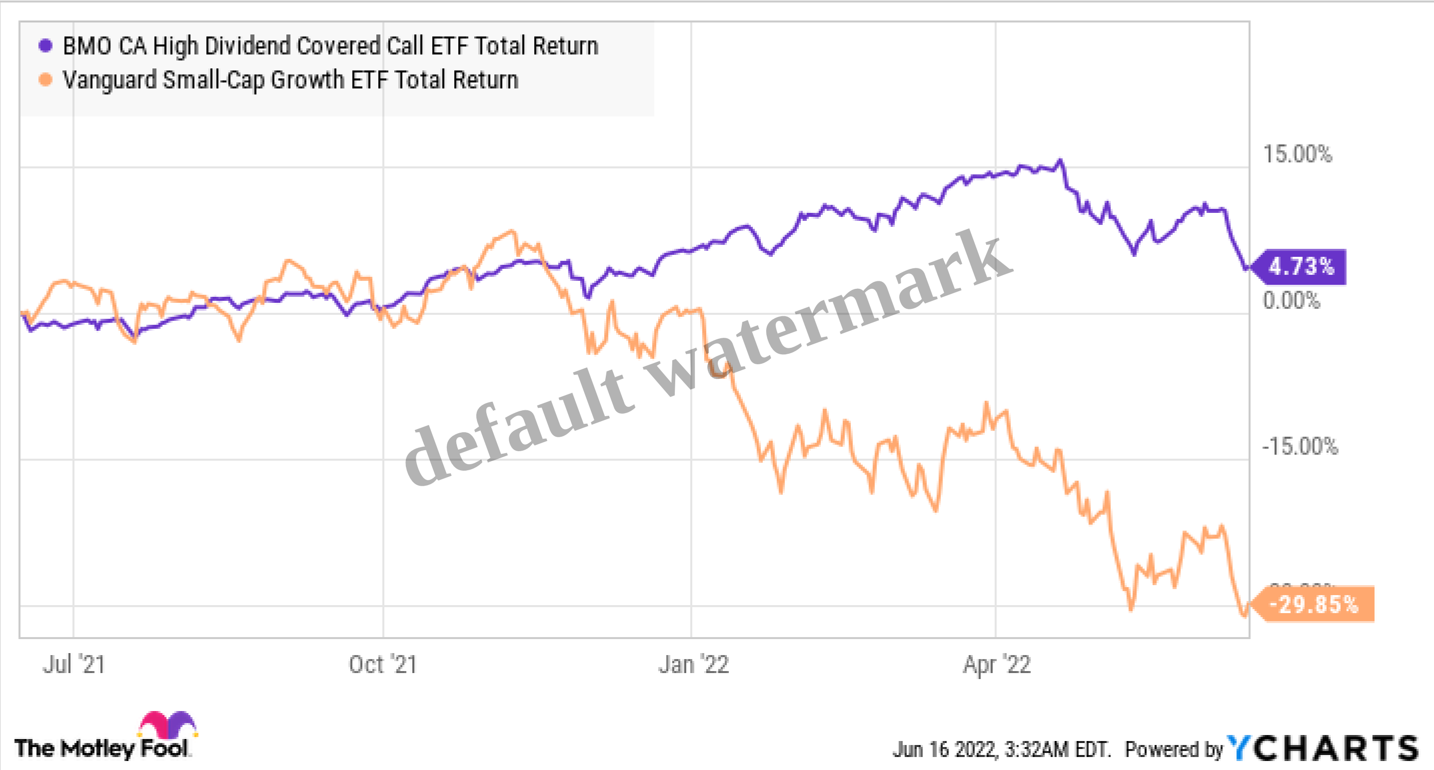
Buy this ETF for growth

Small businesses can grow at a much faster rate than larger companies because of their small size. Imagine it's easier to double revenues of $500,000 versus $1,000,000 for example. However, small-cap stocks are much riskier to own individually versus large caps. It's a different story if you invest in a small-cap ETF that provides immediate diversification.

If you're looking to balance the high income provided by ZWC, now's a good time to consider **Vanguard Small Cap Growth Index Fund** (NYSE:VBK) for long-term price appreciation. VBK consists of growth stocks across all 11 sectors, but its focus is on technology (26.4% of the fund), healthcare (19.1%), industrials (14.0%), and consumer cyclicals (12.5%)

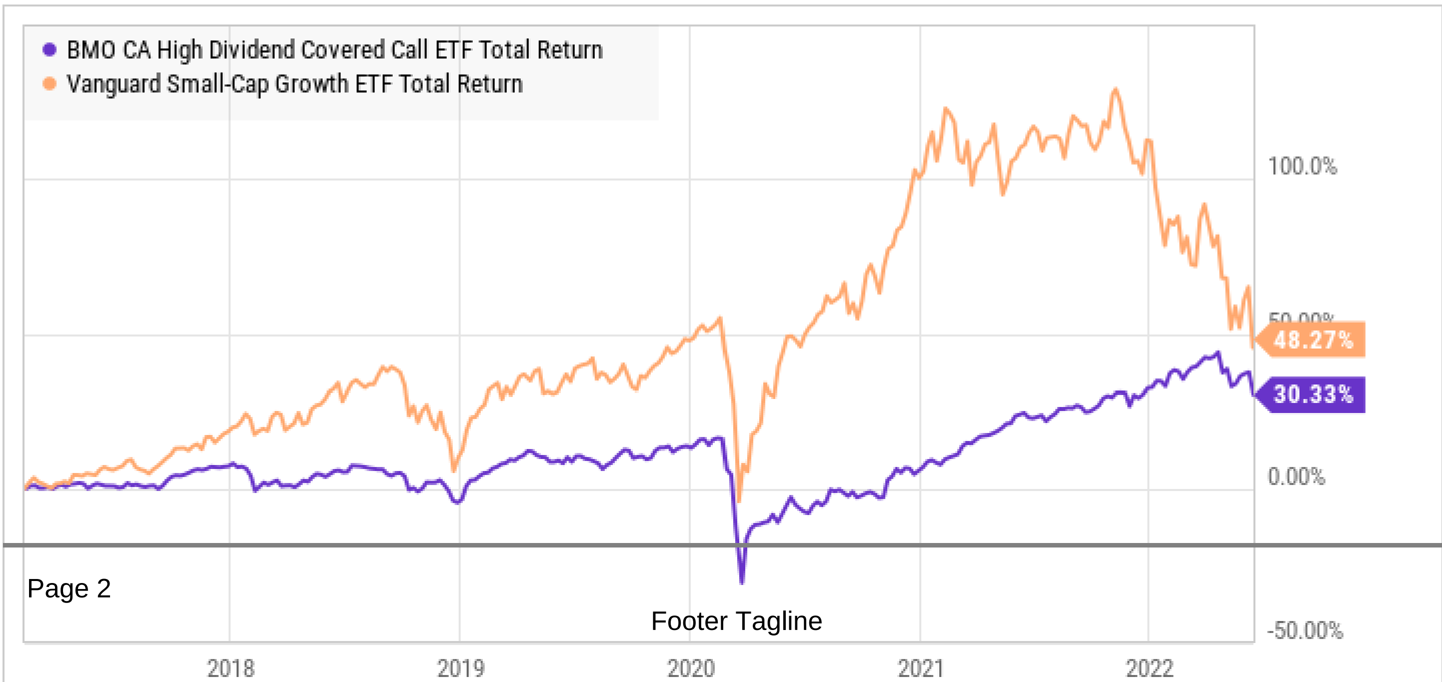
Vanguard Small Cap Growth Index Fund consists of approximately 736 stocks, and its largest holding is only about 0.78% of the fund. It has net assets of about US$28 billion and its average volume is about 332k. Its expense ratio of 0.07% is so low that it's pretty much negligible.

In the last year, VBK fund has corrected meaningfully, which could be a good time to start accumulating shares.



ZWC and VBK Total Return Leveldata by YCharts

VBK is the kind of fund to buy low and sell high. Now, it appears to be cheap.



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The stock correction may continue to weigh on VBK. So, it would be smart to build a position over time instead of buying in a lump sum.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:VBK (Vanguard Index Funds - Vanguard Small-Cap Growth ETF)
2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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