2 Dividend ETFs With Significant Exposure to the TSX’s Top 2 Sectors

Description

The **TSX** is known to have two strongly performing sectors: financial and energy. The percentage weight of the former is 32%, while stocks in the latter comprise 13% of Canada’s headline index. Many investors have financial and energy stocks in their investment portfolios primarily for dividend income.

The Big Five bank stocks are dependable income providers for their dividend track records of more than 100 years. Established crude producers, integrated oil & gas companies, and pipeline operators pay handsome dividends. However, choosing individual stocks from each sector to form a solid stock portfolio isn’t easy.

Your solution to skip the arduous selection process is to invest in a basket of stocks, or exchange-traded funds (ETFs), instead. **Vanguard FTSE Canadian High Dividend Yield Index ETF** (TSX:VDY) and **iShares S&P/TSX Composite High Dividend Index ETF** (TSX:XEI) put the top dividend payers from each sector in their funds. The added advantage or bonus is the monthly dividend payment.

Fully replicated index strategy

Vanguard, through VDY, seeks to track the performance of a broad Canadian equity index. Also, high dividend yield is the common denominator of the Canadian stocks in the fund. As of June 27, 2022, the share price is $42.42, while the dividend offer is 3.46%. Interestingly, this ETF isn’t losing or winning year to date because the price is the same as on year-end 2021.

The fund manager uses a fully replicated index strategy and ensures exposure to large-, mid- and small-cap Canadian stocks across various industries. Currently, large-cap stocks comprise 91.59% of VDY’s 47 stock holdings. The financial sector (54.1%) has the most significant representation followed by energy (28.4%), telecommunications (8.8%), and utilities (6.1%).

VDY’s top 10 holdings are five bank stocks, four energy stocks, and one telco stock. The ETF’s total return in 9.64 years is a decent 152.51% (10.08% CAGR).

Long-term foundational holding

BlackRock's XEI replicates the performance of the S&P/TSX Composite High Dividend Index and seeks long-term capital growth for investors. This ETF outperforms the TSX with its 2.1% year to date. At $25.51 per share, the dividend yield is 3.96%.

XEI has more stock holdings (75) than VDY, although the exposure to the financial (29.94%) and energy sectors (28.19%) are almost even. The next two sectors with the highest percentage weights are utilities (13.88%), and communications (11.91%). BlackRock rebalances the portfolio every quarter.

Ideal diversification

ETFs with only bank and energy stocks as holdings are available on the TSX. However, the diversification isn't ideal because the exposure is confined to one sector. VDY and XEI allows you to invest in multiple companies in either sector plus a few more in other sectors.

Also, don't think that you lose buying or selling flexibility with VDY and XEI. But since dividend ETFs trade like regular stocks, they're not immune from spikes and dips. The beauty of both ETFs is that you have a professional fund manager.

More importantly, you'd have exposure to blue-chip stocks like **Royal Bank of Canada**, **Toronto-Dominion Bank** and three other big banks. On the energy side, you'd have **Enbridge**, **TC Energy**, and **Suncor Energy**. Lastly, if you want to stay invested, but handpicking stocks is a problem, invest in VDY or XEI.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:VDY (Vanguard FTSE Canadian High Dividend Yield Index ETF)
2. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)

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