No More Emotional Investing: 2 ETFs to Own in a Market Selloff

Description

The **TSX** fell below 18,717.10 on June 23, 2022, a day after Statistics Canada reported an inflation rate of 7.7% for May this year. The reading for last month will come out on July 20, 2022, and people are worried that it could top 8%. Because of heightened market volatility, emotions can rule over reason when investors are overwhelmed.

People tend to make mistakes in selecting individual stocks to mitigate the risks. Thus, to be rid of emotions, some financial advisors recommend investing in a basket of stocks or exchange-traded funds (ETFs) instead. The selections on the TSX are plenty. However, ETFs aren't created equal, and two names stand out that should provide peace of mind to risk-averse investors.

Broad collection

BMO S&P/TSX Capped Composite Index ETF (TSX:ZCN) houses the broadest collection of Canadian stocks. ZCN replicates the performance of the S&P/TSX Capped Composite Index and the proportion of the holdings reflect the same proportions in the said index.

Currently, 239 top-ranked Canadian stocks comprise the holdings of ZCN. The financial sector, led by the big banks, has the most significant percentage representation (33.62%). Energy (14.94%), industrials (11.8%), materials (11.21%), and technology (8.13%) round up the top five sectors. The exposure to the remaining six sectors is less than 5%.

It's not surprising that **Royal Bank of Canada** (6.45%) and **Toronto-Dominion Bank** (5.56%) are ZCN's top two holdings. The giant lenders are the top two largest publicly listed companies in Canada. **Enbridge** (3.99%) and railway operators **Canadian National Railway** (3.20%) and **Canadian Pacific Railway** (3.13%) are in the top six.

On a year-to-date basis, this ETF is down 10.5%, which is close to TSX's current loss. At $25.10 per share, the dividend yield is 3.23%. Like most dividend stocks, the payout is every quarter.

Balanced portfolio

The exposure of **BlackRock's iShares S&P/TSX 60 Index ETF** (TSX:XIU) is to large established Canadian companies. It's also one of the most liquid domestic ETFs. XIU carries a medium-risk rating and replicates the performance of the S&P/TSX 60 Index. Notably, this ETF has been around for 32 years.

XIU's composition and percentage weights are similar to ZCN, although the holdings are fewer. RBC (8.1%), TD (6.89%), and Enbridge (4.97%) are also the top three holdings. Performance-wise, XIU isn't spectacular but decent. In 20.02 years, the total return is 409.99% (8.48% CAGR).

As of this writing, XIU trades at $28.86 per share (-10.04% year to date) and pays a 3.04% dividend. The advantage to investors is a more balanced index fund. BlackRock rebalances the portfolio every quarter, although the holdings will not change materially, unless there are removals and additions in the S&P/TSX 60.

The healthcare sector has zero representation and exposure to technology stocks (5.63%) is lower compared to ZCN. However, the common denominator with ZCN is the eligibility of the ETF as investment in registered accounts such as the RRSP, RRIF, and TFSA.

The advantage

Emotional investing can impact negatively on total returns when retail investors panic during bear markets or market corrections. ZCN and XIU underperforms year to date, because the indexes they replicate underperform, too. However, both ETFs offer more stability due to their diversified holdings.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)
2. TSX:ZCN (BMO S&P/TSX Capped Composite Index ETF)

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