2 Stable ETFs Fit for Newbie Investors

Description

The tightening of monetary policies around the globe to curb inflation continues to impact negatively on the investment landscape. The erratic behavior of the **TSX** also stems from recession fears. One asset class that is an ideal fit for newbie investors is the exchange-traded fund (ETF).

The investment thesis for ETFs is that they are low-cost and offer instant diversification for risk-averse investors. However, sector-specific ETFs in volatile markets like technology and cryptocurrency aren't good choices today. Energy or a multi-asset basket of funds are safer bets.

The **BMO Equal Weight Oil & Gas Index ETF** (TSX:ZEO) and **iShares S&P/TSX Composite High Dividend Index ETF** (TSX:XEI) are dividend payers that can provide passive income streams. Both ETFs also outperform the broader market year-to-date.

ETF status

According to the **National Bank of Canada** Financial Markets, Canadian ETF inflows netted a positive $1.67 billion last month despite the $1 billion withdrawal from Canadian and some U.S. equities. On a year-to-date basis, Canadian ETFs raked in $18 billion net.

Commodities ETFs had the smallest outflow ($263 million), while the inflow to multi-asset ETFs was $1.7 billion. The inflow to crypto asset ETFs was only $256 million due to the extremely volatile nature of the nascent category.

Oil & gas industry

BMO Global Asset Management (BGAM), the fund manager of ZEO, is the third best-selling ETF sponsor. ZEO replicates the performance of the Solactive Equal Weight Canada Oil & Gas Index. The holdings in the fund are stocks in Canada’s oil and gas industries. According to BGAM, ZEO is for investors looking for growth solutions. To lessen market-specific risk, stocks must meet minimum market capitalization and liquidity screens.

While the risk rating of this ETF is high, energy is the top-performing sector on the TSX in 2022. At $61.86 per share, ZEO’s year-to-date gain is 35%. The dividend yield is a decent 3.4%. As of this writing, the 10 holdings span the oil and gas storage and transportation, integrated oil and gas, and oil and gas exploration and production sectors.

Aside from its largest holding in **Tourmaline Oil** of 12.7%, ZEO own shares of **Enbridge**, **TC Energy**, **Pembina Pipeline**, and **Canadian Natural Resources**.

Long-term foundational holding

XEI carries a medium-risk rating and has more holdings (75 stocks) than ZEO. Performance-wise, the total return in 3 years is 40.61% (12%). As of August 3, 2022, the year-to-date gain is 2%. Apart from the monthly dividend payout, the dividend yield is a hefty 5.12%.

The highest percentage weights are in the financial (30.26%), energy (28.63%), utilities (14.33%), communications (11.80%), and materials (5.25%) sectors. Technology and consumer staples have zero representations. Enbridge and TC Energy are among the top five holdings, which include the **Royal Bank of Canada**, **BCE**, and **Scotiabank**.

XEI’s investment objective is to provide long-term capital growth to would-be investors. It replicates the performance of the **S&P/TSX Composite High Dividend Index**.

Stable options

Newbie investors who have difficulty selecting individual stocks should consider taking positions in ETFs instead. ZEO and XEI are diversified top-performing ETFs and more stable than holding individual stocks. More importantly, you don’t need a huge amount of capital to start investing. ETFs trade like regular stocks so you can sell in the case you need liquidity or to take profits.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)
2. TSX:ZEO (BMO Equal Weight Oil & Gas Index ETF)

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