2 Canadian Dividend ETFs Perfect for Beginner Investors

Description

Canadians love dividend investing, for good reason. The TSX is filled with many large-cap, blue-chip banking, insurance, energy, utilities, mining, and telecom stocks that offer high yields or a long, consecutive history of dividend growth.

That being said, managing a portfolio of 10–30 dividend stocks can become cumbersome and challenging for the average investor. With this approach, investors need to re-balance holdings periodically, stay on top of the news for their company, and reinvest dividends as they get paid out.

The good news is that various fund providers such as **iShares** have exchange-traded funds (ETFs) that do all the hard work for you. These ETFs hold a basket of dividend stocks according to various criteria. Buying shares of these ETFs gives you instant exposure to a portfolio of great Canadian dividend stocks.

High yield approach

The **iShares S&P/TSX Composite High Dividend Index ETF** (TSX:XEI) passively tracks the performance of 76 Canadian stocks that pay high dividend yields. This ETF selects its holdings by filtering for Canadian stocks that currently pay high dividends relative to their share price.

The top five holdings in XEI include **Royal Bank, Toronto-Dominion Bank, Bank of Nova Scotia, Enbridge, Bank of Montreal**, and **Canadian Natural Resources**. Overall, the ETF is weighted towards the energy (32%) and financial (30%) sectors, making it a concentrated bet on Canada's top two industries.

XEI will cost you an annual expense ratio of 0.22%, which works out to around a $22 fee for a $10,000 investment. Currently, the fund pays a strong annual distribution yield of 5.05%. If you need frequent income, XEI may be ideal as the distributions are paid out monthly.

Dividend growth approach

The **iShares S&P/TSX Canadian Dividend Aristocrats Index ETF** (TSX:CDZ) takes a different approach by only holding 86 large-cap Canadian stocks that have increased ordinary cash dividends for at least five consecutive years. With CDZ, high current yields are not the focus –historical dividend growth is.

Compared to XEI, CDZ's current top six holdings include **Fiera Capital, Pembina Pipeline, Slate Grocery REIT, Keyera,** and **Enbridge**. Once again, the financial (24%) and energy (15%) sectors dominate, but there is substantial weighting to utilities (12%) and real estate (12%) stocks as well.

CDZ charges an expense ratio three times that of XEI at 0.66%, for a $66 annual fee for a $10,000 investment. The distribution yield is also lower at 3.63%, but keep in mind that this is intentional, because the fund focuses on dividend growth versus just high present dividend yields.

The Foolish takeaway

Both funds are fantastic for new investors. Personally, I prefer XEI simply because of its lower expense ratio. However, XEI is rather concentrated in financial and energy sector stocks, which can be cyclical in nature. CDZ is more diversified, and selecting for dividend growth potential might lead to better total returns down the line.

CATEGORY

1. Investing
2. Stocks for Beginners

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2. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)

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tdong