2 Cheap Canadian Tech and Bank ETFs to Buy Right Now

Description

I love exchange-traded funds (ETFs) because they are capital efficient. For investors with smaller bank accounts, buying enough shares of multiple stocks can be difficult, which makes diversification harder to attain. Because ETFs can often hold portfolios of hundreds, if not thousands of stocks, buying an ETF can be a great way make use of limited capital.

Two stock market sectors that can be invested in via ETFs are the Canadian banking and technology sectors. Both have fallen somewhat throughout 2020, with bank stocks holding up better while technology stocks tumbled hard. Both industries comprise a large proportion of the domestic stock market and are worthy of investing in. Let's take a look at my top picks today.

Bank stock ETF

Canada's so-called Big Six banks include **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Canadian Imperial Bank of Commerce**, **Bank of Nova Scotia**, **Bank of Montreal**, and **National Bank**. The banks operate in a tightly regulated oligopoly with little competition. As a result, most continue to smash earnings expectations and post ever-increasing profits and dividend payouts.

A great way for investors to buy all six bank stocks for just $36 (at the time of writing) is via **BMO S&P/TSX Equal Weight Bank Index ETF** (TSX:ZEB). ZEB holds all six bank stocks in equal-weight proportions, or 16.67% each, re-balances them for you, and pays out their dividends monthly. This saves investors the trouble of buying and selling stocks constantly.

In return for this, ZEB will charge you an annual expense ratio of 0.28%, which is deducted from the total amount you have invested. For example, if you have $10,000 in ZEB, you would pay around $28 a year in fees. The ETF currently pays a good annualized distribution yield of 4.06%.

Energy stock ETF

Canadian tech companies have fallen significantly hard this year, as inflation skyrocketed and interest rates increased. Numerous tech stocks are now trading below their all-time-highs set during the pandemic. For risk-tolerance investors, the current tech slump could be an excellent entry opportunity by buying **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT).

XIT holds a total of 25 Canadian tech stocks, notably **Shopify** and **Constellation Software**, which together account for 50% (25% each) of the ETF. Other companies like **Open Text**, **Nuvei**, **Lightspeed Commerce**, and **BlackBerry** are held in smaller proportions. Overall, XIT is down over -28% year to date and trades at a price of around $35 per share, making it very affordable.

In terms of fees, XIT is over twice as expensive as ZEB with an annual expense ratio of 0.61%. This means that for a $10,000 investment in XIT, you would be charged around $61 annually in fees. As well, XIT does not pay a distribution, given that none of its underlying tech stocks pay a dividend. If you're seeking consistent income over high-risk growth, this isn't the ETF for you.

CATEGORY

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