Newbies: 2 Medium-Risk, High-Yield ETFs that Pay Monthly Dividends

Description

The stock market is where people can buy and sell stocks or shares of publicly listed companies. You can earn money or make profits if you buy low and sell high. The amount of capital is relative because what is more important is the return on investment (ROI). But higher returning investments can also mean a higher risk of losses.

Stock investing has risks, so investors must know their risk tolerance before investing. They can then take steps to reduce investment risk. One key strategy to diversify risk is by investing in a portfolio of stocks. Investing in individual stocks can be riskier, especially for beginners.

In 1990, the **Toronto Stock Exchange** introduced exchange-traded funds (ETFs) to Canadian investors. Instead of picking individual stocks, rookies wanting exposure to the TSX can pick from baskets of stocks. You can trade ETFs like regular stocks. Since the launching of ETFs 32 years ago, the asset class has risen in popularity and become a popular choice for first-timers. As of July 31, 2022, total investment in the Canadian ETF industry is US$257 billion.

Risk-rating

ETFs are risk-rated by fund providers or portfolio managers themselves to manage investors' expectations. But for newbies with medium-risk appetites, two high-yield ETFs are highly recommended. Besides the offer of instant diversification, the pair pay monthly dividends. The higher the investment, the higher would be your recurring income streams.

Financial services sector

BlackRock's **iShares Canadian Financial Income ETF** (TSX:FIE) is a diversified portfolio that consists of common shares, preferred shares, corporate bonds and issuers of income trust units. The exposure is to the Canadian financial sector. This ETF with a medium-risk rating trades at $7.33 per share and pays a juicy 6.59% dividend.

The portfolio manager seeks to maximize total return to investors and provide them with a stable stream of monthly cash distributions. As of August 16, 2022, the multi-asset ETF has 1,210 underlying holdings, including 27 stock holdings. Regarding exposure or percentage weights, the banking sector (50.64%) has the most significant representation in the fund.

FIE's second-highest exposure is to insurance stocks (22.10%), and the remaining sectors have minimal representations. The top holding, however, is an ETF or **iShares S&P/TSX Canadian Preferred Share Index ETF**. FIE has positions in Canada's Big Six banks and the top four are **CIBC**, **Bank of Montreal**, **Royal Bank of Canada**, and **Toronto Dominion Bank**.

The fund's top two insurance stocks are **Manulife Financial** and **Power Corporation of Canada**. FIE isn't a mediocre investment but instead has delivered a decent 127.7% (8.57% compound annual growth rate) total return in 10 years.

Wider exposure

BMO Global Asset Management (BGAM) professionally manages **BMO Canadian Dividend ETF** (TSX:ZDV). Unlike FEI, ZDV isn't sector-specific. The exposure is to higher dividend-paying Canadian stocks (yield-weighted portfolio). BGAM uses a rules-based methodology to select the stock holdings. It focuses on the three-year dividend growth rate, yield, and payout ratios.

While ZDV carries a medium-risk rating, BGAM aims to deliver sustainable income with lower volatility than the market. Performance-wise, ZDV outperforms the TSX year to date, +3.6% versus -4.94%. If you invest today ($20.33 per share), the dividend yield is 4.28%.

ZDV has 51 stock holdings and the exposure breakdown is more balanced. The top four sectors are financial (39.66%), energy (15.95%), utilities (10.88%), and communication services (10%). The top three stocks are **RBC**, **BNS**, and **Enbridge**.

Suitable for beginners

All investment choices on the TSX, whether stocks or ETFs, have inherent risks. However, ETFs are especially suitable for beginners because they offer diversification. Apart from simplifying the selection process, the exposure to a group of stocks minimizes the risks.

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