ETFs for Beginners: You Pick Income or Growth

**Description**

New investors can start investing through exchange-traded funds (ETFs). There are many advantages to investing in ETFs. They provide diversification. Managing an ETF portfolio is much simpler than managing an investment portfolio that comprises individual securities.



In fact, you might not need to manage it at all if you follow Warren Buffett's advice on adding to a stock market-wide ETF like **SPDR S&P 500 ETF Trust** (NYSE:SPY) until retirement. If you wish, you can invest in bond and stock ETFs for different exposure. ETFs are also generally low cost.

# A dividend ETF for beginners

**iShares S&P/TSX Composite High Dividend Index ETF** (TSX:XEI) is an ETF that consists of about 74 dividend stocks. Its top holdings are the four biggest Canadian bank stocks, three large energy infrastructure stocks, **Canadian Natural Resources**, and two big Canadian telecom stocks. These top holdings tend to pay out safe dividends that are high versus the market. As well, investors can expect them to increase their dividends over time.

In terms of sector diversification, XEI has 30% in financials, 28% in energy, 14% in utilities, and 12% in Communication. It also has approximately 4-5% each in the materials, real estate, and consumer discretionary sectors. And less than 1% in industrials and health care.

As outlined on the **BlackRock** website, the XEI ETF "pays monthly dividend income" and is "designed to be a long-term foundational holding." Its management expense ratio is also low at 0.22%.

Stan Wong, a portfolio manager from Scotia Wealth Management, just picked this ETF as one of his top picks on *BNN* this month. He noted:

> “It’s a great opportunity to buy strong dividend income names from established Canadian large-cap companies — banks, pipelines, utilities, and telecoms — names like **Royal Bank**, **BCE**, **Enbridge**, and **Pembina**.”

The dividend ETF is down about 12% from its highs earlier this year. It now yields over 5%. In summary, it should grow over time while providing solid income and stability for an equity portfolio.

In the past 10 years, XEI returned 7.7% annually, of which 64% of total returns came from dividends.

## U.S. stock market ETF for total returns

SPDR S&P 500 ETF Trust offers excellent diversification for Canadian investors. The ETF provides exposure to large-cap U.S. stocks across all 11 Global Industry Classification Standard sectors. At a high level, it has 27% in information technology, 14% in health care, 12% in consumer discretionary, 8% in each of communication services and industrials, 11% in financials, 7% in consumer staples, 5% in energy, and about 3% or less in each of utilities, real estate, and materials sectors.

Its top holdings include **Apple**, **Microsoft**, **Amazon**, **Tesla**, and **Alphabet**. The fund’s gross expense ratio is less than 0.1%. So, it’s even cheaper to hold than XEI.



The market-wide ETF is a great complement to XEI. Other than SPY’s different sector diversification in the U.S. market, it’s also more growth oriented. Accordingly, in the past 10 years, SPY returned 12.5% annually, of which 83% came from price appreciation (and only 17% of its total returns came from dividends). It currently yields close to 1.5%. State Street Global Advisors SPDR estimates SPY’s three- to five-year earnings-per-share growth rate will be 12.28%.

## The Foolish investor takeaway

Invest passively in ETFs with little management needed on your part (if any at all)! You can get more stable returns by investing in dividend ETFs like XEI. It would be smart for you to add on meaningful market corrections of at least 10%. That said, if you have a long-term investment horizon potentially until retirement, SPY would likely be a better choice for total returns.

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

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kayng