2 Ultra-Low Risk ETFs That Yield Over 3.5%

Description

Not many assets were safe in 2022. Thanks to high inflation and rising interest rates, both stocks and bonds fell in tandem. Unless most of your portfolio was held in cash, chances are you're experiencing some unrealized losses like the rest of us.

The problem with holding too much cash is that it doesn't do anything. Cash doesn't grow. In fact, it loses value to inflation as time goes on. However, it is the only "risk-free" asset out there. If you're dead-set on minimizing the effects of a market crash, nothing beats the protection of cash.

However, there are some exchange-traded funds, or ETFs, out there that invest your cash in high-interest savings accounts (HISA), which is as low risk as it gets. With the recent Bank of Canada interest rate hike of 0.75%, both of these ETFs now yield over 3.5% each.

Purpose High Interest Savings ETF

The Purpose High Interest Savings ETF (TSX:PSA) is a great way to hold cash in a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) while still earning regular interest income. When you buy shares of PSA, the fund manager invests your capital in HISAs with Schedule 1 Canadian banks, which is as safe as it gets.

Every month, investors who hold PSA earn interest income. Currently, the annual gross yield of the fund stands at 3.7% thanks to rising interest rates. This is a fantastic return considering how low risk the fund is. PSA is virtually immune to market risk and will not drop in value during a correction.

The ETF currently costs a management expense ratio (MER) of 0.15%, or $15 annually, for a $10,000 investment. Keeping fees low is important, as they are deducted from your overall gross yield. The net yield of the fund can be approximated by gross yield minus MER, which comes out to around 3.6%.

Horizons High Interest Savings ETF

Horizons High Interest Savings ETF (TSX:CASH) works similarly to PSA — the ETF also deposits investor capital into HISAs with Schedule 1 Canadian banks. Compared to PSA, the gross yield of CASH is slightly higher at 3.8%. This is higher than many bond funds, without the interest rate risk. As interest rates increase, expect the yield to rise accordingly.

CASH is slightly less popular than PSA, with assets under management (AUM) of $357 million versus $2.5 billion, respectively. However, both are more than liquid enough, with a small bid-ask spread. This helps keep transaction costs low, which is critical for low-yielding products. The more you save on trades, the more money ends up in your pocket.

In terms of fees, the ETF currently has a management expense ratio of 0.13%. This reduces the net yield of CASH down to just 3.7%, which is always a plus for low-yielding ETFs. Keep in mind that this can change as the fund manager incurs management expenses, taxes, etc. A good way to keep track is to check up on the expense ratio every quarter.

The Foolish takeaway

If you're worried about a market crash, either PSA or CASH can be a great way to hold cash for a buying opportunity while earning interest. If you're worried about further interest rate hikes, both ETFs can be great substitutes for some portion of a bond allocation. Either way, these ETFs are as "risk-free" as investing gets while still earning a small return.

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1. Investing

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2. TSX:PSA (Purpose Fund - Purpose High Interest Savings ETF)

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