For New (and Old) Investors: 3 Dividend-Paying ETFs With Lower-Risk Profiles

Description

Canada's primary stock market underperformed in September 2022 and will enter the fourth quarter in negative territory. The **TSX** is down 12.1% year to date, with only two out of 11 primary sectors showing positive gains. Energy is ahead 31.1%, while the consumer staples sector is up by a measly 1%.

The probability of a recession keeps rising with the aggressive rate hikes by the Bank of Canada. Because of recession fears, people are looking for places to hide their money in a volatile environment. One asset class that should help contain panic is an exchange-traded fund (ETF). Whether new or old, risk-averse investors can consider ETFs over individual stocks.

While there's no risk-free investment, these three Canadian ETFs have lower-risk profiles. The dividend yields are moderate to high, but the asset mix, or allocation, in the respective funds should mitigate market risks.

Equities and fixed-income securities

Vanguard Balanced ETF Portfolio (TSX:VBAL) is a sound choice because the exposure is broad-based. The fund manager maintains a long-term strategic asset allocation of approximately 60% in equities and 40% in fixed-income securities (bonds). VBAL's objective is to provide long-term capital growth with a moderate level of income to investors.

In terms of geographic exposure, the majority of the assets are from the U.S. (43.9%) and Canada (30%). Investments in Europe, the Pacific, and Emerging Markets complete the minority holdings. Moreover, sub-advisors to the fund reconstitute and rebalance the portfolio asset mix from time to time, or when necessary.

If you were to take a position in VBAL right now, the share price is $26.30. The dividend yield is a decent 2.56%, while the payouts are quarterly.

100% Canadian stocks

Sector-specific ETFs are available on the TSX, although the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB) is best during uncertain market conditions. The 100% Canadian ETF invests in blue-chip companies in 9 of the 11 primary sectors, and only the healthcare and technology sectors have zero representations.

Regarding sector allocation, financials (21.50%), utilities (15.67%), and consumer staples (15.44%) have the most significant percentage weights. ZLB has a total of 47 stocks, with **Hydro One**, **Intact Financial**, and **Metro Inc.** as the top three holdings. This ETF outperforms the TSX and is down by only 4.8% year to date. At $37.91 per share, the annual dividend yield is 2.72% (quarterly distribution).

Monthly dividends

iShares S&P/TSX Composite High Dividend Index ETF (TSX:XEI) is an ideal option for dividend chasers. Besides the high dividend yield of 5.55%, the ETF's payout frequency is monthly. Like ZLB, the Fund invests only in Canadian stocks. XEI replicates the performance of the **S&P/TSX Composite High Dividend Index** and seeks long-term capital growth. The current share price is $23.98 (-2.8% year to date).

XEI carries a medium-risk rating and has 75 stock holdings. Because the exposure is to dividend-paying Canadian stocks from various sectors, investors can spread the risks. The financials (30.5%), energy (29.3%), and communications services (12%) sectors have ample representation. You can own shares of industry leaders **RBC**, **Enbridge**, and **BCE** in one basket of funds.

Instant diversification

The strong headwinds in 2022 will likely extend to next year or until inflation eases close to the central bank's target range (2% to 3%). Meanwhile, it's advisable to be extra defensive today by owning ETFs for instant diversification.

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