Own All Six Canadian Bank Stocks and Earn a 4% Dividend Yield With This ETF

Description

Some of the best stocks for beginner investors are large-cap, blue-chip ones. Compared to small-cap or growth stocks, these companies are often less volatile and have stronger fundamentals. A great sector to look for them is the TSX financial sector, which is dominated by the Big Six bank stocks.

Currently, the list includes **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Canadian Imperial Bank of Commerce**, **Bank of Nova Scotia**, **Bank of Montreal**, and **National Bank.** The TSX banking sector is highly regulated and oligopolistic, making banks a popular investment choice.

Factor in these bank's histories of good earnings growth and consistent dividend increases, and what you have is a popular core holding for many Canadian dividend and growth investors alike. Many of these banks rank in the top holdings for the S&P/TSX 60 index.

The problem with bank stocks

However, investors with a small portfolio may find it hard to buy enough shares of each bank to stay diversified. For instance, shares of Royal Bank currently trade at over $120 per share. Investors with a small amount of money, say a $1,000 portfolio, can only buy around eight shares with some change left over.

Add in the other five bank stocks, and the cost of ownership quickly balloons. This is especially so if you want to diversify outside of the Canadian banking industry, which is always a good idea. However, if you don't have a lot of money to invest, this can be difficult.

The solution: A bank ETF

A great way to overcome this problem is via an exchange-traded fund (ETF) that holds a basket all six bank stocks. When you buy shares of this ETF, you own a proportional amount of the underlying stocks. The ETF trades on exchanges just like any other stock, making it easy to buy and sell.

To buy all six bank stocks with a single ticker, the ETF of choice is **BMO S&P/TSX Equal Weight Bank Index ETF** (TSX:ZEB). ZEB holds shares of all six banks in equal weights (around 17% each) and re-balances them periodically to ensure no single stock dominates the fund.

Another advantage of ZEB is its monthly dividends. While bank stocks pay quarterly dividends, ZEB pools them and pays out more frequently, which is great for income investors. Right now, the ETF pays an annualized distribution yield of 4.13%, which is higher than the market's average.

Right now, ZEB costs a management expense ratio (MER) of 0.28%. This is the annual fee deducted from your investment over time. If you invested $10,000 in ZEB, a 0.28% MER works out to around $28. This is low considering you don't have to incur trading commissions buying individual stocks.

Best of all, ZEB has a low price per share of around $33 at time of writing. An investor with a small portfolio of $1,000 could buy up to 30 shares. By doing so, that investor gains exposure to all six Canadian bank stocks without having to invest too much money.

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