2 Unstoppable Investments Everyone Needs in Their TFSA

Description

Your Tax-Free Savings Account, or TFSA, is a great place to hold Canadian stocks. While U.S. stocks held here are subject to a 15% foreign withholding tax on their dividends, Canadian stocks aren't. Holding high-growth or income-oriented Canadian stocks in a TFSA can be a good idea.

While you get up to speed reading the stock pick the other Foolish writers are suggesting, consider investing the bulk of your portfolio in an exchange-trade fund, or ETF. ETFs offer great diversification at a low cost and can be a good way to get a portfolio started.

Today, I have two picks. The first one is a straightforward, low-cost, passively managed index ETF that targets long-term growth. The second is an actively managed covered call ETF that prioritizes high monthly dividend income. Let's take a look!

iShares S&P/TSX 60 Index ETF

iShares S&P/TSX 60 Index ETF (TSX:XIU) is one of the largest and most liquid ETFs in Canada. It debuted in 1990, making it the first and oldest ETF in the world. It offers Canadians instant access to 60 great large-cap, blue-chip stocks in a single ticker.

Over the last 20 years from 2002 to present, XIU has returned an annualized 7.49% with all dividends reinvested, which is a solid return. This year, it's only down -6.22%, which is far less than the -16% loss suffered by the S&P 500 index.

XIU will cost you a management expense ratio of 0.20% to hold. This is the annual percentage fee deducted from your investment. If you invested $10,000 in XIU, you could expect to pay around $20 annually in fees, which is cheap compared to most mutual funds.

BMO Canadian High Dividend Covered Call ETF

Investors looking for high monthly income might prefer **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC). The ETF holds a portfolio of 35 Canadian blue-chip, dividend-paying stocks, mostly from the financial and energy sectors. Then it sells covered call options on them.

The use of covered calls converts the future upside potential of ZWC into an immediate cash premium, which is distributed to investors as income along with underlying dividends. As a result, ZWC currently pays a very high annualized distribution yield of 6.88%.

If you'd invested $10,000 in ZWC, you could expect to receive around $688 per year, or $57.33 monthly, if the current yield remains consistent. In terms of fees, ZWC is significantly more expensive due to its active management, with a management expense ratio of 0.72%.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)
2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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