



Top Canadian Nasdaq ETFs of 2023

Description

One of the best-performing stock market indexes of the last decade has been the Nasdaq 100. Due to the rapid growth of large-cap U.S. technology sector stocks like the [FAANG](#) cohort, the Nasdaq 100 delivered above-average returns from 2007 to 2021, outpacing the S&P 500 index during this period.¹

Thanks to its strong growth potential and technology sector tilt, the Nasdaq 100 remains highly popular among investors around the world. Canadian investors looking to invest passively in the Nasdaq 100 today can use a variety of [exchange-traded funds, or ETFs](#). If you're interested in learning more about the best Nasdaq 100 ETFs, then this article is for you.

What is a NASDAQ 100 ETF?

Debuting in 1985, the Nasdaq 100 is a market-cap weighted index that tracks the performance of 100 large-cap U.S. non-financial sector stocks listed on the NASDAQ exchange.² Currently, around 50% of the Nasdaq 100 is composed of U.S. technology sector stocks.³

Investors wishing to invest in the Nasdaq 100 cannot do so directly and must instead use [mutual funds or ETFs](#) that track the Nasdaq 100. The latter work by purchasing a “basket” of the current underlying Nasdaq 100 stocks according to their respective weights in the index.

Thus, Nasdaq 100 ETFs buy and hold stocks of the Nasdaq 100 index to try and match its performance. The difference between the actual return of the Nasdaq 100 index and a Nasdaq 100 ETF is known as a “tracking error”. It can either be positive (if the ETF outperforms) or negative (if the ETF underperforms).⁴

The primary benefit of a Nasdaq 100 ETF is the ability to track the index accurately and at a low cost. Because investors cannot buy the Nasdaq 100 index directly, a Nasdaq 100 ETF is the best way to gain exposure in a brokerage account.

What to know about investing in NASDAQ ETFs

Like all ETFs, Nasdaq ETFs charge a management expense ratio, or MER. The MER is the annual percentage fee deducted annually from your investment. It pays for the fund manager's trading, operational, administrative, and marketing costs. For example, a Nasdaq 100 ETF with a MER of 0.39% would cost you around \$39 annually for a \$10,000 investment.

Investors should also note that Canadian-listed Nasdaq 100 ETFs can come in currency-hedged and unhedged forms. When it comes to unhedged Nasdaq 100 ETFs, fluctuations in the USD-CAD exchange rate can affect their returns. There are two possible outcomes here:

1. USD appreciates against the CAD: Canadian-listed unhedged Nasdaq 100 ETF gains additional value.
2. CAD appreciates against the USD: Canadian-listed unhedged Nasdaq 100 ETF loses additional value.

Therefore, an unhedged Nasdaq 100 ETF has higher volatility as its returns will also be influenced by changes in the USD-CAD exchange rate, whether positive or negative. To mitigate this, investors can buy hedged Nasdaq 100 ETFs, which use forward derivatives to negate FX fluctuations. However, hedged ETFs tend to incur higher tracking errors due to the cost of currency hedging.⁵

Finally, advanced investors can make use of more exotic Canadian Nasdaq 100 ETFs that use derivatives to obtain enhanced income potential or leveraged and inverse exposure. Keep in mind that these ETFs are generally riskier, costlier, and more complicated to understand.

Top Canadian NASDAQ 100 ETFs

The following Canadian-listed Nasdaq 100 ETFs have a combination of low fees, good trading volume, and high assets under management.

Nasdaq ETF	Inception Date	MER
BMO NASDAQ 100 Equity Hedged to CAD Index ETF (TSX:ZQQ)	19-Jan-2010	0.39%
iShares NASDAQ 100 Index ETF (CAD-Hedged) (TSX:XQQ)	03-May-2011	0.39%
Invesco NASDAQ 100 Index ETF – CAD hedged (TSX:QQC.F)	08-Jun-2011	0.23%
Horizons NASDAQ-100 Index ETF (TSX:HXQ)	19-Apr-2016	0.28%

BMO NASDAQ 100 Equity Hedged to CAD Index ETF

ZQQ is currently the most popular Canadian Nasdaq 100 ETF with just over \$1.2 billion in assets under management, or AUM. The ETF buys and holds the underlying stocks of the Nasdaq 100 index in the same proportions. ZQQ also comes in an unhedged version as the BMO NASDAQ 100 Equity Index ETF (TSX:ZNQ).

iShares NASDAQ 100 Index ETF (CAD-Hedged)

XQQ is currently the second-most popular Nasdaq 100 ETF in Canada, with AUM of \$1.7 billion. Like ZQQ, XQQ also buys and holds the underlying stocks of the Nasdaq 100 index to gain exposure to the non-financial Nasdaq large caps. It does not come in an unhedged version.

Invesco NASDAQ 100 Index ETF – CAD-hedged

QQC.F tracks the Nasdaq 100 index by investing in two of Invesco's popular U.S.-listed Nasdaq 100 ETFs. Thus, QQC.F does not directly hold the underlying Nasdaq 100 stocks, but instead uses a "fund of funds" structure. Like ZQQ, QQC.F also comes in an unhedged version, the Invesco NASDAQ 100 Index ETF (TSX:QQC).

Horizons NASDAQ-100 Index ETF

HXQ is a special Nasdaq 100 ETF that uses a corporate class structure. Because of this, HXQ does not pay any distributions. Rather, distributions are automatically reinvested into HXQ, increasing its net asset value when paid out. This helps with tax efficiency and can lower tracking errors.

Pros of investing in Nasdaq 100 ETFs

Nasdaq 100 ETFs have the following advantages:

- **High historical growth:** While past performance does not predict future performance, the companies in the Nasdaq 100 have outperformed the market for extended periods of time and demonstrated stronger-than-average growth.
- **Hands-off:** Investors who buy a Nasdaq 100 ETF can benefit from exposure to 100 U.S. companies without needing to manage individual stocks.
- **Capital efficiency:** Buying shares of a Nasdaq 100 ETF costs significantly less money than purchasing individual shares of all 100 underlying companies.
- **Low withholding tax:** Canadian ETFs [holding U.S. stocks](#) are subject to a 15% foreign withholding tax on the dividends.⁶ However, because the Nasdaq 100 is heavy in growth and technology stocks that rarely pay dividends, it is very tax efficient.

Cons of investing in Nasdaq 100 ETFs

NASDAQ 100 ETFs have the following disadvantages:

- **High volatility:** A Nasdaq 100 ETF invests in 100% stocks. Historically, it has fluctuated up and down more than the broad market and has lost substantial value during crashes like the 2008 Great Financial Crisis.
- **Sector concentration:** Around 50% of the Nasdaq 100 ETF is currently in the [technology sector](#), which has historically endured prolonged bear markets and crashes like that of the 2000 Dot-Com Bubble. The Nasdaq 100 also has no exposure to U.S. financial stocks, which is an

important and large sector of the stock market.

- **Lack of small-caps:** The market-cap weighted nature of the Nasdaq 100 makes it very heavy in mega-cap stocks. The Nasdaq 100 only includes a handful of mid-cap stocks and excludes [small-cap stocks](#) entirely, which can outperform the market.
- **Higher fees:** Canadian Nasdaq 100 ETFs tend to charge a higher MER compared to other U.S. equity ETFs like S&P 500 ETFs.
- **Lack of international stocks:** U.S. markets stagnated from 1999–2009 during the “lost decade”.⁷ An investor who diversified away from the Nasdaq 100 into domestic Canadian or [international stocks](#) during this time would have avoided those losses.

Are Nasdaq 100 ETFs right for you?

The answer to this question depends on your time horizon, investment objectives, and risk tolerance. In general, an allocation to Nasdaq 100 ETFs is best suited for high-risk investors who continue to be bullish about growth prospects for large-cap U.S. tech sector stocks.

A Nasdaq 100 ETF is likely to be more volatile than the overall stock market thanks to its concentration in the tech sector and large-cap stocks. There have been numerous years like 2000–2002, 2008, and 2022 where the Nasdaq 100 suffered deep losses. An investor who holds the Nasdaq 100 must be willing to tolerate this volatility and maintain a long-term perspective.

Therefore, investing only in the Nasdaq 100 is a highly aggressive move best suited for investors who can tolerate the high volatility of a 100% stock portfolio. Other investors should consider an allocation to bonds and cash, or diversify through Canadian and international stocks.

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1. TSX:HXQ (Horizons Nasdaq-100 Index ETF)
2. TSX:QQC.F (Invesco NASDAQ 100 Index ETF)
3. TSX:XQQ (iShares NASDAQ 100 Index ETF (CAD-Hedged))
4. TSX:ZQQ (Bmo Nasdaq 100 Equity Hedged To Cad Index ETF)

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