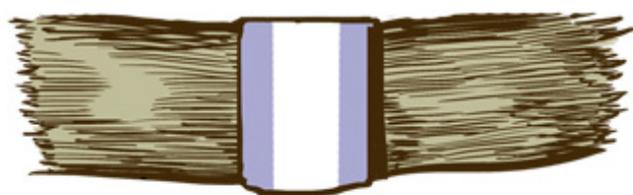


Rob Carrick's Guide to

ETFs



Rob Carrick is one of the country's leading personal finance experts and writes regular columns for The Globe's Report on Business

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Introduction

Exchange-traded funds are a good idea gone crazy.

There are hundreds of ETFs listed on the Toronto Stock Exchange. Three to six are all you need for a nicely diversified portfolio

Recognizing that investors need help finding the right ETFs for their portfolios, we have created The Globe and Mail ETF Buyer's Guide. Covered here are five types of ETFs – Canadian, U.S. and international equity funds, dividend and income diversified income funds and bond funds. Use this guide to narrow down the choices in these categories. Then, continue your research using the resources that ETF companies make available on their websites.

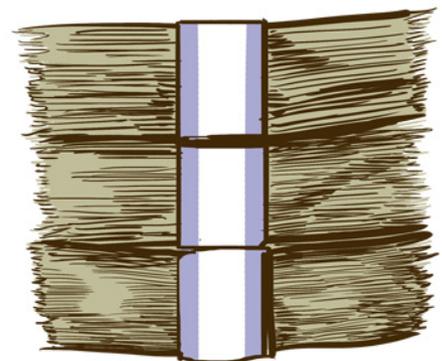
ETFs have been around for close to 25 years, so there's nothing new or trendy about them. And yet, many investors are still getting to know them. A few basic facts:

- › ETFs are a sort of mutual fund that trades like a stock.
- › You need a brokerage account to invest in them, or an adviser who is able to access them.
- › Most brokers charge commissions to trade ETFs, but a few waive some or all of these costs.
- › The traditional ETF tracks major stock and bond indexes; today, many funds follow more niche-oriented indexes or have a manager who picks stocks.

Why own ETFs?

They're much cheaper to own than mutual funds, yet they provide all the same diversification benefits. Portfolios built on ETFs can take you through your saving years right through to retirement and beyond. ETFs are suitable for your registered retirement savings plan, your tax-free savings account and your registered education savings plan.

A caveat for ETF investors: Because they trade like a stock, ETFs can be bought and sold much easier than mutual funds. In trying to reach your long-term financial goals, excessive ETF trading can very easily make you poorer.



Glossary of terms

Here are some of the terms you'll need to know to understand the ETFs listed in this guide:

Assets

Shown to give you a sense of how interested other investors are in a fund; the smallest funds may be candidates for delisting.

Management expense ratio (MER)

The main cost of owning an ETF; on an ongoing basis; as with virtually all funds, published returns are shown on an after-fee basis.

Trading expense ratio (TER)

The cost of trading commissions racked up by the managers of an ETF as they shuffle the portfolio to keep it in line with a target index; add the TER to the MER for a fuller picture of a fund's cost. Note many ETFs do so little trading that their TERs round down to zero.

Dividend yield

Mainstream indexes can be a good source of dividend income.

Average daily trading volume

Trading of less than 10,000 shares per day on average tells you an ETF isn't generating much interest from investors.

Top three sector weightings

Most Canadian market ETFs reflect the fact that financials, energy and materials account for about 70 per cent of the market; a few ETFs attack the market differently.

Top three stocks

Another view on which ETFs take a different approach to tracking the Canadian market.

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ETF Basics

Where to learn about ETFs

1. What the heck is an ETF, anyway?

Basic, unbiased information about ETFs is available on the GetSmarterAboutMoney.ca website, which was established by the Ontario Securities Commission and, unlike many other financial sites, accepts no advertising from financial firms.

(Note: The Investor Education Fund, the group behind the website, is a co-sponsor of The Globe's Let's Talk Investing online video series.)

Morningstar, an independent analysis firm, offers ETF basics in slide show form on its website. Newbies should check out the presentations titled "Are ETFs Right for You?" and "Mutual Funds or ETFs – Which to Choose?"

» [Investor Education Fund ETF page](#)

» [Morningstar ETF page](#)

2. Who are the ETF companies in the Canadian market?

TMX Money, an investor website run by the company that owns and operates the Toronto Stock Exchange, has an ETF section that includes profiles of the nine companies offering exchange-traded products in the Canadian market. Included is the newest entrant, First Trust Portfolios Canada.

» [TMX Money ETF company profiles](#)

3. Where can I find a master list of all ETFs listed on Canadian and U.S. exchanges?

Use the stock filter on [Globeinvestor.com](#). Choose your exchange from the drop-down menu, then select ETFs from the menu labelled Security. A total of 343 TSX-listed ETFs were listed as of this publication, along with 1,132 on the New York Stock Exchange.

» [Globeinvestor stock filter](#)

4. How can I narrow my search?

TMX Money has a basic screener that lets you isolate funds by asset class, region, style, size, sector and issuer. The results are displayed in a way that lets you instantly see which funds are the cheapest, most diversified, most liquid, most tax efficient and have the least tracking error (that's where an ETF's returns deviate from its underlying index). There's a lack of precision in this screener that will give you oddball results at times, but it's still worth trying.

ETF Insight's screener lets you search using such criteria as asset class, strategy (examples: dividend income, covered call, equal weight, fundamental), management expense ratio, performance, distribution frequency and yield. For bond ETFs, you can search by yield to maturity and duration. Yield to maturity is the best indicator of your future returns from a bond ETF (remember to subtract a fund's MER for a net number), while duration is a key measure of sensitivity to moves in interest rates.

» **[TMX Money ETF screener](#)**

» **[ETF Insight screener](#)**

5. How can I quickly compare the particulars of a few ETFs at once?

The Vanguard family of ETFs offers a comparison tool that lets you compare up to four funds from Vanguard and most other Canadian mutual fund and ETF companies. For ETFs tracking stock market indexes, you'll find such data as MER, Price-Earnings Ratio, Price-Book Ratio, dividend yield, portfolio turnover, sector breakdowns and Top 10 holdings. The data for bond ETFs are spotty, however.

» **[Vanguard ETF comparison tool](#)**

6. What's the best source of information on individual ETFs?

Transparency, along with low costs and incredible utility as portfolio-building tools, are the main attributes of ETFs. So don't be surprised that ETF companies offer detailed online profiles of their funds with data on fees, yields, distribution history, top holdings in both stock and sectors and performance of both funds and their underlying indexes. Some firms are better at disclosure than others – maybe I'll write a column on that some day.

The ETF profiles on Google Finance include one of the best charting tools around. Just type the ETF ticker into the search box, which seems to recognize TSX-listed ETFs. If you run into trouble, try typing "TSE:" in front of the symbol, as in TSE:XIU.

- » **BMO ETFs**
- » **FirstAsset ETFs**
- » **First Trust Portfolios Canada**
- » **Horizons**
- » **iShares**
- » **PowerShares**
- » **RBC ETFs**
- » **Vanguard**
- » **Google Finance**

7. Where can I find ETF prospectuses?

A central clearing house for all ETF prospectuses and other regulatory documents is the online System for Electronic Document Analysis and Retrieval, or Sedar (check here for documents issued by mutual funds, closed end funds and publicly traded companies as well).

- » **Sedar**

8. How can I keep track of new or upcoming ETFs?

The ETF News area on the Morningstar.ca website lists new ETFs on the Canadian market.

- » **Morningstar.ca ETF page**

9. What's a good source of Canadian ETF investing ideas?

Globeinvestor.com's ETFs page packages our extensive ongoing coverage of exchange-traded funds. Recent articles you'll find here cover such topics as ETFs for exploiting a turnaround in gold prices, how ETFs would be affected by certain big deals (ie. the Loblaw-Shoppers Drug Mart deal) and assessing the risk of rising interest rates in bond ETFs. Also try Morningstar.ca's webpage and ETF Insight.

» [Globeinvestor ETF page](#)

10. What about U.S. ETFs?

A basic but effective screener for ETFs listed on exchanges in the United States and elsewhere is offered by the Bloomberg business news service. You'll find a more advanced screener on the ETF Database website. Worried you'll miss out on good ETFs because the U.S. market is so vast? If you call up a profile of a fund on the Wikinvest website, you'll find a list of all comparable products listed on U.S. exchanges. For investing ideas, try IndexUniverse and ETF Trends. The ETF page on Yahoo Finance is worth looking at because it aggregates content from a variety of other sites.

» [Bloomberg ETF screener](#)

» [ETF Database screener](#)

» [Wikinvest](#)

» [Index Universe](#)

» [ETF Trends](#)

» [Yahoo Finance ETF page](#)

11. Where can I find model ETF portfolios?

ETF Insight offers a variety of model portfolios under the following categories: Traditional, low cost, fundamental and alternative (the latter includes a rising interest rate portfolio). Data on portfolio fees, yield and, where applicable, duration, are included. The ETF Trends website offers a U.S. perspective on model ETF portfolios.

» **ETF Trends model portfolios**

12. Which investing bloggers cover ETFs?

The Canadian Couch Potato blog is all index investing, and ETFs get a lot of coverage because they're an ideal way to invest in the world's major stock and bond indexes. The Canadian Capitalist blog maintains a "Sleepy Portfolio" of ETFs that is designed to be easy to run and ultra cheap.

» **Canadian Couch Potato blog**

» **Canadian Capitalist**

Originally published Jul. 26 2013.

ETF Basics

Taxation issues

ETF investors, be careful not to overpay your taxes.

You can easily do this if you hold your exchange-traded funds in a non-registered account. It's not unusual for ETFs to make what's called a reinvested distribution at year's end. Even though you don't actually receive any money, these distributions are documented as capital gains on the T3 slips mailed by investment firms at this time of year, and you have to pay tax on them.

There's nothing you can do about these distributions – they're an annoying fact of life with investment funds of all types. But you can address the taxes payable when you sell an ETF.

Here's how: Find the amount of reinvested distributions you received from an ETF over the years you owned it and then combine that amount with your purchase price plus brokerage commission. This is an important part of calculating your adjusted cost base, which you'll use to determine your ultimate capital gain or loss when selling your ETF.

The net effect of adding reinvested distributions to your purchase price is to lower the amount of your capital gain (or increase the loss, if your ETF fell in value) when you sell. Imagine you take an ETF investment that cost you \$50 per share (including commission) many years ago and adjust the cost base to \$52.50 after considering your reinvested distributions and another variable called return of capital that we'll look at shortly. If you sell for \$60, the amount of capital gain per share is \$7.50.

You'll need a record of what you paid to buy an ETF for this calculation (including commission), and the cumulative amount of reinvested distributions, if any, for the years you owned it. This latter information should be available under the "distributions" tab on the fund profiles provided online by ETF companies. Look under the column heading that says "reinvested distribution per unit."

In the case of BMO ETFs, you'll find a footnote to the information on reinvested distributions that states: "Distributions by the BMO ETF that are not paid in cash should be accounted for by investors for tax purposes by adding the distribution amount to the adjusted cost base of the units held." The website for BlackRock's iShares family has the same message, and it's in the same tiny type, way

down at the bottom of the page.

“This information is all publicly available, but you have to mine for it,” said Kathy Hill, co-owner of a website that offers an adjusted cost base calculation service called ACB Tracking Inc. For a modest fee, ACB will produce a personalized adjusted cost base for any TSX-listed closed-end fund, exchange-traded fund or income trust. You just need the buy and sell details for the security you own.

ACB started out as a way to help investors keep track of return of capital payments from income trusts and other investments. Return of capital is another major component of the adjust cost base calculation, and it has the opposite effect of a reinvested distribution. Return of capital payments should be subtracted from your cost base, which means they will either increase your ultimate capital gain or reduce your loss.

The income-focused ETFs that have been especially popular in recent years almost always have a return of capital component to their regular monthly distributions. As a result, investors should have at least a passing acquaintance with this particular tax issue.

Reinvested distributions are less well understood, in part because ETFs don't expose investors to them on a regular basis. A reinvested distribution generally occurs when a fund sells securities in its portfolio and locks in a capital gain that isn't offset by capital losses. Unitholders must pay tax on the gain, even as the money is reinvested back in the fund in a way that leaves the value of your investment unchanged. Now you understand why ACB Tracking uses the term “phantom” to describe those reinvested distributions.

Phantom distributions used to be a sideline to ACB's main job of tracking return of capital. But the proliferation of ETFs in recent years has made these distributions more of an issue.

Let's not overstate the matter, though. As an index-tracking investment, an ETF typically offers less risk of reinvested distributions than a conventional mutual fund. A fund manager may, for any number of reasons, sell stocks and thereby lock in a capital gain. A traditional ETF tracks a stock index and thus makes changes in its holdings only when the index is rebalanced. Often, there will be no reinvested capital gains distributions at all.

There are roughly 320 ETFs listed on the Toronto Stock Exchange. ACB says 74 of them made phantom distributions last year, and they ranged from a few cents to almost \$1 per unit. In 2011, 45 funds made this kind of distribution.

Phantom distributions shouldn't have a massive impact on your adjusted cost base, but they may still add up to a significant amount if you're a long-term investor. ACB says the largest ETF in the country, the iShares S&P/TSX 60 Index Fund (XIU), has made a total of 11 phantom distributions totalling \$1.66 per unit since 1999 (adjusted for a 4:1 stock split in 2008).

ACB charges as much as \$8.50 and as little as \$3 per calculation, depending on which data package you buy. Each calculation allows you to input multiple purchases and sales of a particular ETF to get an adjusted cost base that reflects both return of capital and phantom distributions over the period you owned the fund.

ACB's database is loaded with return of capital and non-cash distribution data, which saves you the trouble of gathering this information yourself. Note: If you use a dividend reinvestment plan, you'll have to enter reinvested dividends manually.

Investors who don't mind keeping their own records should take a look at a free website called AdjustedCostBase.ca. Input all your buy and sell transactions, your return of capital payments, your capital gains distributions and any reinvested dividends and it will keep a running tally of your adjusted cost base.

Ms. Hill said 40 per cent of the people using her website are accountants, 40 per cent are investment advisers and 20 per cent are individual investors who understand how to calculate their adjusted cost base. "We're seeing the savvy investors. There are lots out there who don't know."

Originally published Mar. 26 2013.

ETF Basics

For young investors

The more money you have, the more attention you get from the investing industry.

Young investors are pretty much invisible to Bay Street, then. Bank branches will sell mutual funds to anyone with a pulse and \$500 to spend, and investment advisers will often take their clients' kids on as a courtesy. But no one is reaching out to people who are starting out in the work force and looking for ways to start investing.

That's where we come in. Parents, pass this guide along to your kids.

1. Especially for students and recent grads

Virtual Brokers, which ranked first in the 15th annual edition of The Globe and Mail's online brokerage ranking, has created what could very well be the only investment plan aimed at young investors. It's called the Kick Start Investment Program and it allows clients to set up an automated purchase plan where money goes into exchange-traded funds or individual stocks in the S&P/TSX 60 and S&P 500 indexes with zero commission costs.

The minimum monthly contribution is \$100 and you can invest in as many as five stocks or ETFs. Contributions are drawn from a linked bank account and then used to buy as many full shares as possible, with any remaining money left to sit in your account as cash. Kick Start has zero cost for students and people who have graduated within the past two years. Everyone else pays a \$50 annual fee, but no commissions when buying shares (normal sell commissions apply).

2. When you're starting from nothing and have only small change to invest

Check out the ING Streetwise Balanced Growth Portfolio, which is sold by the online bank ING Direct (changing its name to Tangerine in the new year). You can invest any amount in this ready-made portfolio, which is based on index funds tracking Canadian bonds and cash (about 24 per cent) and Canadian, U.S. and international stocks (76 per cent). That's an appropriately aggressive mix that will reward you well in up markets for stocks and offer a modest cushion in down

markets.

The fee associated with owning this fund is 1.07 per cent, which is acceptable for a turnkey portfolio that allows you to contribute any amount and any time without paying any commissions.

With as little as \$100 to start, you can buy the e-series of index funds from Toronto-Dominion Bank. Set up an account at TD's online brokerage firm, TD Direct Investing, and use it to build a portfolio based on the funds in the e-series lineup. There's no fee to buy or sell and the cost of owning these funds is very close to exchange-traded funds, which we'll cover shortly. Note: If you're opening a registered retirement savings plan account with TDDI to buy an e-series fund, tell them you want a basic RRSP with a low annual administration fee of \$25 that applies to accounts of under \$25,000.

3. If you want ETFs

Exchange-traded funds are low-cost index funds that trade like a stock, which means you'll pay commissions of up to \$29 to buy and sell them at an online broker. However, a few firms now waive some or all ETF commissions. Qtrade Investor, Scotia iTrade and Virtual Brokers have a limited list of ETFs that can be traded at no cost. Questrade and VB let you buy ETFs at no cost, but charge you a sell commission (VB has two ETF offers). Zero-cost ETFs are perfect for people who want to make monthly or quarterly investments.

4. If you want individual stocks

When starting with a small amount of money, you're best served by owning a diversified ETF or mutual fund. But for those infatuated with stock picking, you'll find the lowest commissions at Virtual Brokers, where the cost is basically a penny per share with a \$9.99 cap, and Questrade, where trades start at \$4.95. Avoid the big bank firms – they charge as much as \$29 to clients with less than \$50,000 in their accounts.

5. Be smart with registered account fees

Young investors often ask whether it's better to contribute to a registered retirement savings plan or a tax-free savings account. TFSAs are more versatile as an all-purpose investing vehicle, and young adults may find they have certain tax advantages over RRSPs. There's also a fee-related reason to use TFSAs if you're the customer of many of the big online brokers.

The practice at many online firms is to offer TFSAs without annual administration fees, while charging up to \$100 for RRSPs with assets of less than \$15,000 to \$25,000. Another advantage with TFSAs is that they may not be subject to a broker's minimum size requirements for new accounts. At BMO InvestorLine, for example, the \$5,000 minimum is waived for TFSAs.

6. If you want to practise your skills as an investor

Online brokers are increasingly offering practice accounts, which look like the real thing and use virtual money. They're a great way to familiarize yourself with online trading of ETFs and stocks, and test your investing acumen before committing real money.

Most practice accounts are available to clients of a firm only. Suggestion: Open an account and then explore the practice accounts before doing any actual investing. Or, check out the new stock trading simulator created by TMX Group Inc., the company that owns the Toronto and Montreal Stock Exchanges. It's set up very much like the trading screens at online brokerage firms and it's available to anyone.

Originally published Nov. 22, 2013.

ETF Basics

Pick the best online broker

The best reason to be a do-it-yourself investor is to cut costs, and the online broker that helps you do that best is Virtual Brokers.

Cost is a huge category in the annual Globe and Mail ranking of online brokers, and VB aces it. Now you understand why this tiny firm that hardly anyone knows about has, for the second year in a row, taken top spot in the annual Globe and Mail ranking of online brokers.

VB is no one-trick broker. It ticks off several other key boxes in this ranking, including personalized account reporting to show clients how their portfolios are performing and the availability of U.S.-dollar registered accounts.

As a relatively new player in the online brokerage business, VB is still a bit rough around the edges. But over all, it emerges ahead of Qtrade Investor, long a dominant player in this ranking, and other strong options like BMO InvestorLine, RBC Direct Investing and Scotia iTrade. For the first time, the independent firm Questrade has been included with the higher-scoring brokers.

This ranking is designed for mainstream investors, not active traders, so firms are only considered if they offer all types of registered accounts, and a wide variety of investment choices and tools for research, planning and screening. All brokers included here are members of the Canadian Investor Protection Fund (CPIF), which protects account assets of up to \$1-million if a broker goes under.

Brokers are evaluated on their online services, not those available by telephone.

How brokers are scored

Cost: Brokers who do well in this category have a low hurdle for clients to qualify for sub-\$10 stock trades. Commissions on bonds and mutual funds are also considered, as are administration fees for registered accounts and the availability of commission-free exchange-traded funds.

Account information: In this category, brokers live or die by the job they do in helping clients gauge how their portfolios are performing over time.

Trading: Brokers are graded here on the availability of registered accounts that can hold U.S. dollars (many brokers force a conversion into Canadian dollars when clients sell U.S. stocks or receive dividends from such stocks), as well as the trading experience for clients when buying or selling stocks, the range of investment products available online and the number of stocks available for dividend reinvestment plans.

Tools: This category covers the variety and exclusivity of a broker's research, financial planning and stock/ETF/mutual fund screening tools.

Innovation: Shows which firms are leaders in terms of cutting prices and introducing new services, and which are followers.

BMO InvestorLine

Overall letter grade: B

Costs: Not a strength, C

Account info: Among the best B+

Trading: U.S.-dollar RRSPs are available B

Tools: Good B

Innovation: A strong record in this area B

The best of the bank-owned firms right now over all, InvestorLine subtly tries to raise itself above the small-account riffraff with a \$5,000 account minimum (TFSA and RESP excepted), the highest of any firm in this ranking. Administration fees for registered accounts are also on the high side for small accounts. Aside from costs, InvestorLine does pretty much everything well. Through its AdviceDirect channel, InvestorLine even offers an advice option. Clients pay 1 per cent of their account assets annually (less for large accounts) in exchange for investing guidance delivered online and through a staff of eight investment specialists. That's pricey, but possibly a value for DIY investors who would flounder without assistance.

CIBC Investor's Edge

Overall letter grade: C

Costs: Not bad C+

Account info: Nobody home D

Trading: U.S.-dollar registered accounts unavailable C+

Tools: Tons of research from CIBC World Markets and other sources A

Innovation: Not a strong suit D

If you have \$100,000 in total household business with Canadian Imperial Bank of Commerce (mortgages included), you qualify for a flat rate of \$6.95 for online stock trades. For a bank-owned firm, that's a pretty nifty value. Not a CIBC client? Then there's little here of interest beyond the excellent library of stock research and one of the few fee-free registered education savings plan accounts in the online brokerage world.

Credential Direct

Overall letter grade: C

Costs: Not a leader C+

Account info: Good job B+

Trading: U.S.-dollar registered accounts unavailable C

Tools: A good package B

Innovation: None to speak of D

Welcome to Credential Direct's bizarro world. Credential charges a minimum \$19 per stock trade for small accounts, compared with \$29 at the bank-owned firms. But while the banks cut your commissions to a flat \$10 or so if you have at least \$50,000 in your account, Credential gets you down to that price level only if you trade actively. What's weird here is that Credential is part of a credit union movement that is supposed to represent the interests of Main Street, not Bay Street. So why does it promote the sort of active trading that generates wealth for brokers at the expense of clients? At least Credential has lowered the qualifying threshold for \$9.95 commissions to 10 trades within three months from 25 trades.

Disnat Classic

Overall letter grade: C

Costs: A higher cost broker C

Account info: Good job B+

Trading: U.S.-dollar registered accounts unavailable, but they say they're working on it C

Tools: A good package B

Innovation: Not much to speak of C

Three things stand out – personalized account reporting, a good collection of research on stocks and ETFs, and a feature called GPS, which offers clients model stock and ETF portfolios run by a Desjardins Securities portfolio strategist.

HSBC InvestDirect

Overall letter grade: D

Costs: A typical bank-owned firm C

Account info: Nil D

Trading: Online trading in global markets, but no U.S.-dollar registered accounts D

Tools: Laggards C

Innovation: Kidding, right? F

Hard to see why they bother.

National Bank Direct Brokerage

Overall letter grade: C

Costs: On the high side, but kudos for recently giving commission-free ETF trading a test drive C-

Account info: A bright spot B

Trading: U.S.-dollar registered accounts are targeted for June – they'll improve this firm's ranking. D

Tools: Strong B

Innovation: Signs of improvement C

These guys nailed top spot in the latest J.D. Power discount brokerage investor satisfaction survey, so their customers like them a lot. NBDB has never been a star in this ranking, but there are some signs of fresh thinking at work. Example: The firm recently concluded a six-month promotion allowing clients to trade Canadian-listed ETFs for nothing. Commission-free ETFs are a significant win for investors, so how about making this permanent?

Qtrade Investor

Overall letter grade: B+

Costs: Very reasonable B

Account Info: They were early adopters of personalized account reporting A

Trading: Well done A

Tools: Middling B

Innovation: Quick to adopt everyone else's breakthroughs B

Qtrade's second-place ranking here is mainly explained by the fact that it was elbowed aside by Virtual Brokers on cost. Qtrade remains a great choice for the mainstream investor who wants state-of-the-art service in virtually all respects. Still, we'll have to keep an eye on Qtrade, now that Desjardins Group owns a 40-per-cent stake. Desjardins is the parent of Disnat, which has been looking up – way up – at Qtrade for years in this ranking. Qtrade says it has assurances from Desjardins that it will continue to operate independently, but you have to wonder about the economics of one firm running two separate online brokers.

Questrade

Overall letter grade: B

Costs: A friend to the frugal mainstream investor, thanks to a \$4.95 minimum stock-trading commission B

Account info: Lame now, but they say personalized reporting is coming early in 2014 B

Trading: They have U.S.-dollar registered accounts nailed, but the lack of online bond and GIC investing is a negative. B

Tools: Not their strong suit C

Innovation: The quintessential nimble independent firm B

Questrade exemplifies the latest thinking in the online brokerage business about how you can't build a business catering mainly to active traders. Year by year, Questrade has been making itself more appealing to the investing mainstream, especially the newbies who get their bones picked clean by bank-owned firms through high trading costs and annual account administration fees. Questrade

has zero account admin fees, the second-lowest trading commissions behind Virtual Brokers and a program that allows investors to buy any ETF commission-free (you pay to sell). With personalized account reporting, this firm will be even better.

RBC Direct Investing

Overall letter grade: B

Costs: Not a draw for this broker C

Account info: First rate A

Trading: Strong B

Research: Good B

Innovation: Ebbs and flows C

Big blue is a strong overall broker that was ahead of the curve in offering personalized account reporting and U.S.-dollar RRSPs. Research tools are quite good, but it's an irritation that RBC Dominion Securities stock research is reserved for active traders and high-net-worth clients. On mutual funds, RBC is both hero and villain. Clients can now buy low-fee, D-class versions of RBC mutual funds with a minimum of \$500, down from \$10,000. But funds from Mawer Investment Management, among the finest out there for DIY investors, are not sold because they pay no commission to the seller.

Scotia iTrade

Overall letter grade: B

Costs: Not bad for a bank-owned firm B

Account info: A black hole C-

Trading: Good B

Tools: Love their research centre A

Innovation: Once strong, but fading B+

Scotia iTrade has one of the sharpest websites of any firm listed here, and its research tools stand out for not relying on the Morningstar data that so many other firms trundle out for clients. In fact, everything hums along for clients until they try to find the tools that show them how their portfolios have performed over the long term. There aren't any, and Scotia hasn't provided any indication of when they might be added.

TD Direct Investing

Overall letter grade: C

Costs: One of the most expensive brokers C-

Account info: Not in the game C-

Trading: The lack of U.S.-dollar registered accounts hurts them C+

Tools: Arguably the best A+

Innovation: Lost their way C-

The former TD Waterhouse has made zero progress in filling in two gaping holes in its service – personalized account reporting and the lack of U.S.-dollar registered accounts. Are these guys on a technology strike? They don't even allow clients to send secure e-mails to get administrative questions about their accounts answered. Add high costs to the analysis and you end up with what could be the weakest showing TD has ever had in this ranking. TD still rules in two areas – research and service, thanks to a call centre that operates 24/7 in English, French, Cantonese and Mandarin. Also, TD has really improved its visual presentation of client account holdings. Footnote: TD suckered me last year in saying U.S.-dollar registered accounts were “coming soon in 2013.” Now, they say they're on track for a 2014 delivery.

Virtual Brokers

Overall letter grade: A

Costs: The lowest-cost broker in this ranking, period A

Account info: Coming along nicely B

Trading: Everything you need A

Tools: Meh C

Innovation: The most innovative broker in this ranking, period A

VB was last year's winner, and some Globe readers tried it on that basis. For a while, the feedback was worrying. People said the account-opening process was abysmally slow and the firm was sluggish to respond to queries by phone or e-mail. VB says it had its hands full with two initiatives that stretched its resources temporarily. The upside of being a VB client is a mix of the lowest costs in this ranking (including a new minimum commission of a penny a share and no-cost buying of ETFs) and amenities that quite a few industry giants don't have, including U.S.-dollar registered accounts (RESPs included) and personalized account reporting. Most important, there's constant innovation. Just introduced is the Kickstart Investment Program, an automated program (with no trading fees) for young investors, and a new twist on DRIPs that provides a commission-free way for clients to reinvest their dividends in any eligible stock or ETF.

Stock Trading Commission Comparison

Here are the online stock trading commissions that would apply in three different transactions. Where multiple prices appear, the first applies to clients with accounts big enough to qualify for commission discounts and the second applies to small accounts (see footnote for details on CIBC Investor’s Edge). Discounts for active trading are not included. Check with individual firms to see how big your account needs to be to qualify for lower commissions.

FIRM	200 shares of a \$30 stock	1,200 shares of a \$20 stock	10,000 shares of a \$1.50 stock
BMO InvestorLine	9.95/29	9.95/36	9.95/225
CIBC Investor’s Edge	6.95/9.95/28.95	6.95/9.95/36	6.95/9.95/225
Credential Direct	19	24	200
Disnat (Classic)	9.95/29	9.95/36	9.95/225
HSBC InvestDirect	9.88/28.88	9.88/28.88	9.88/225
Nat’l Bk Direct Brkrge	9.95/28.95	9.95/36	9.95/225
Qtrade	9.95/19	9.95/30	9.95/200
Questrade	4.95	9.95	9.95
RBC Direct Investing	9.95/28.95	9.95/36	9.95/225
Scotia iTrade	9.99/24.99	9.99/36	9.99/300
TD Waterhouse	9.99/29	9.99/36	9.99/225
Virtual Brokers	2	9.99	9.99

Notes: Qtrade and Questrade may in some cases charge additional electronic network (ECN) fees; For limit orders placed by clients with less than \$50,000, Qtrade charges an additional \$4 per trade; Virtual Brokers has three commission plans - the one shown here is called “The Penny”; CIBC charges \$6.95 to clients who have \$100K in household business with the bank.

Forex Comparison

As part of this year's online brokerage ranking, firms were asked how much they would have charged a client to buy 100 and 1,000 shares of Microsoft at a price of \$30 (U.S.) per share. Here's the price quoted by each broker, including foreign exchange charges, effective on the morning of Oct. 1. Stock-trading commissions are not included here.

FIRM	100 shrs transaction cost in C\$	1,000 shrs transaction cost in C\$
BMO InvestorLine	3,096.00	30,960.00
CIBC Investor's Edge	3,144.90	31,254.00
Credential Direct	3,153.30	31,218.00
Disnat	3,150.30	31,233.00
HSBC InvestDirect	3,151.50	31,545.34
Nat'l Bk Direct Brokerage	3,139.50	31,200.00
Qtrade	3,117.90	31,089.00
Questrade	3,158.82	31,588.20
RBC Direct Investing	3,143.10	31,191.00
Scotia iTrade	3,148.50	31,245.00
TD Waterhouse	3,140.40	31,194.00
Virtual Brokers	3,120.30	31,203.00

Interest rates on margin debt

In a margin account, an investor borrows money from his or her broker to buy securities. These are base rates that apply to Canadian-dollar balances; lower rates may apply on larger balances.

FIRM	Rate
BMO InvestorLine	4.25%
CIBC Investor's Edge	4.25%
Credential Direct	5%
Disnat	4%
HSBC InvestDirect	4.25%
Nat'l Bk Direct Brokerage	4.25%
Qtrade	4.50%
Questrade	6%
RBC Direct Investing	4.25%
Scotia iTrade	4.25%
TD Waterhouse	4.25%
Virtual Brokers	4.50%

Originally published Nov. 18, 2013

ETF Basics

What you need to know about income and dividend ETFs

Even the most useful and sensible of investing products can turn out to be more complex than you thought.

Exchange-traded funds that pay monthly income are a good example. Put them on your short list if you need a well-diversified, low-cost way to squeeze income from your investment dollars, but mind the details. Two areas to focus on: yield, and the extent to which a return of capital is present in the monthly payouts.

Comments I've received from investors suggest some people are not getting the yields they expected from their monthly income ETFs. Others have received their tax documents and found that, in addition to bond interest and dividends, the income they're receiving in their non-registered accounts includes a significant return of capital. That's a turnoff to investors who want the simplicity of being paid with interest and dividends only.

Naturally, investors bear some responsibility for understanding what they buy. But the investment industry has obligations as well to disclose in simple terms how their products work. In a recent publication for the broad investment fund industry, the Ontario Securities Commission suggested some firms are falling short.

Following a review of income funds of all types, the commission said it would ask for greater clarity in how yields are calculated and more detail on whether a return of capital is part of the distributions made to investors. ETFs are often praised for providing a higher level of disclosure than other types of investment funds, so there's some reason to hope for better labelling of monthly income funds. In the meantime, let's look at some things investors need to know when evaluating these products.

Monthly income ETFs generally hold stocks and bonds, or a basket of other ETFs that focus on various income-producing sectors. A key point of comparison in choosing a monthly income fund is the yield, which is calculated as the annualized total income payout divided by share price.

Finding a real-world yield for an income ETF can be a challenge. One reader said he had issues with a fund that was described on the website of the company offering it as having a "portfolio yield" of 5.4

per cent. When this investor checked the yield online at Globeinvestor.com, he found the yield was 4.8 per cent.

The lesson here is that portfolio yield refers to the income paid out by the investments in an ETF, before fees. Distribution yield, which you'll see in online quotes and on some ETF company websites, is more useful because it's an after-fee number based on the actual income payments made by a fund.

Unfortunately, distribution yield isn't a perfect number if you're looking at monthly income funds that happen to hold some bond ETFs. Looking at the distribution yield for bond ETFs can give you a distortedly high picture of your yield. The better indicator of what yield to expect from a bond ETF going forward is yield to maturity minus a fund's management expense ratio. You can find yield to maturity data on ETF company websites.

If you're evaluating a monthly income fund that holds bond ETFs in its portfolio, it's worth looking at those bond funds individually to monitor the gap between their distribution yields and their after-fee yields to maturity. The bigger the gap, the more you should mentally discount the distribution yield for your monthly income fund.

Income payments are one variable in calculating yield; the other is price. But what price? Some ETF companies use the market price and some use the net asset value, which can at times differ from the market price.

This shouldn't be a major problem with ETFs because the gap between market prices and NAVs is supposed to be inconsequential. Yves Rebetz, a chartered financial analyst and managing director and editor at ETF Insight (etfinsight.ca), said that of the two, he prefers NAV in the yield calculation because it gives a truer picture of the income produced by an ETF's portfolio.

The presence of a return of capital in ETF monthly income distributions is something investors just have to live with if they want a monthly income ETF. Return of capital refers to cash over and above the taxable income generated by the investments in a fund.

Each return of capital payment has the effect of lowering the cost that you will use at some point in the future to calculate your capital gain (or loss) when you sell your ETF. Given that only 50 per cent of a capital gain is taxable, you might conclude a return of capital is not a bad thing.

Some investors don't agree. They like the transparency of living

off dividends and interest and leaving their capital alone. But after checking a wide variety of income-focused ETFs (including bond, dividend, diversified income and covered call funds), it seems virtually impossible to avoid at least some return of capital component in distributions.

One explanation lies in the fact that ETF firms must occasionally create new units to satisfy investor demand. Investors who own the newly created units expect a full distribution, even if these units haven't been around long enough to have generated sufficient dividends and interest.

Morningstar ETF analyst John Gabriel said there's a cash component that goes into the creation of new ETF units to top up the distributions payable. "From an accounting point of view, that cash component isn't really a dividend paid by the underlying companies," he wrote in an e-mail. "So that portion of the distribution is classified as a return of capital."

Mr. Gabriel said the return of capital is reported only on an annual basis. "It's an accounting matter typically handled at year end after all the dust settles."

A return of capital also plays a role in income ETFs with level monthly payments designed to give investors a predictable flow of cash. These funds face a challenge in that quarterly dividends and semi-annual bond interest don't arrive in an orderly way that easily lends itself to a steady monthly payout. By using a return of capital, ETF companies can smooth the payouts.

"If investors want steady income from investing in sectors that don't pay out a predictable income stream, there will need to be return of capital from time to time," said Oliver McMahon, head of product for the iShares ETF lineup, said in an e-mail.

Before buying income ETFs for your non-registered accounts, familiarize yourself with the composition of the distributions. All ETF firms have fund profiles on their websites with a tab dedicated to distributions. Check out the most recent full-year tally and save yourself from a surprise when your next tax slips arrive.

Originally published Apr. 27 2012.

ETF Basics

About bonds

There are so many ins and outs to putting bonds in your portfolio. Bond funds are expensive to own, but convenient to buy. Bond exchange-traded funds look good by comparison, but they lack the singular advantage of owning individual bonds. On maturity, the government or company that issued a bond will hand investors their money back. Bond funds and ETFs never mature.

Which bond investing vehicle is best for you? Here is The Globe and Mail's definitive guide to bond investing choices. Bond funds, bond ETFs and individual bonds are examined here in 10 different categories and rated on a scale of one to five for their utility. First, a quick look at how the choices available work.

Originally published Jul. 26 2013.

	Bond funds	Bond ETFs	Bonds
How they work	A portfolio manager looks after the bonds in the fund.	They typically track the returns of recognized bond indexes.	It's all on you to assemble a coherent portfolio of bonds.
Convenience	Widely available with no upfront commissions and low minimum investments. You can buy one of the better bond funds in the country, TD Canadian Bond, by walking into a TD Canada Trust branch and plunking down \$100. Some top bond funds have upfront minimums of \$5,000 to \$10,000.	All ETFs trade like stocks. Once you have a brokerage account set up, you can buy any of the six dozen or so bond ETFs listed on the Toronto Stock Exchange in any quantity you want.	Most online brokers have screening tools that let you browse their inventory for bonds that suit your needs. The technology behind these screeners hasn't been updated in ages, which means they're not user friendly. Bonds come and go from the inventory on a daily basis, and there's no way to create a virtual bond portfolio that you can use as a short list of possible buys for your portfolio.
<i>Score out of 5</i>	4	3	2
Diversification	A well-diversified portfolio of bonds is one of the main benefits of owning a bond fund.	Ditto. ETF holdings can range from 20 or so to several hundred bonds, so you're well covered.	With many brokers requiring minimum investments of \$5,000 per bond, it can be tricky for small investors to properly diversify their bond holdings. When buying bonds from non blue chip companies, a lack of diversification can make you especially vulnerable to the risk of default.
<i>Score out of 5</i>	4	5	2
Cost to buy	Often available with no upfront sales commissions or redemption fees.	A few online brokers waive commissions on certain ETFs, including some bond products; otherwise, expect to pay \$1 to \$5 at the low end per trade at an online broker and as much as \$29 at the high end.	In most cases, a commission is invisibly added by most brokers to the price you're quoted when you buy. There is no official disclosure of bond commissions. This will change in July, 2014, when bond commissions start to appear in trade confirmation slips. Bond commissions will also appear in the annual report on fees and commissions that investment firms will start providing clients in 2016.
<i>Score out of 5</i>	4	3	2
Cost of Ownership	At a time when a five-year Government of Canada bond yields 1.3 per cent, the average bond fund management expense ratio of 1.69 per cent is exorbitant. Some bond funds are priced below 1.0 per cent, and they include some top performers.	Much lower than bond mutual funds, with MERs ranging from 0.17 to 0.45 per cent for funds holding Canadian government and corporate bonds. Still, ETF companies don't seem to compete as much on bond fund fees as they do on the cost of owning equity funds.	None. Once your broker has soaked you on the purchase price, actual bonds are a zero-cost investment.
<i>Score out of 5</i>	1	4	5

Cont'd	Bond funds	Bond ETFs	Bonds
Transparency	Poor. Bond funds are clearly aimed at investors who ask no questions. Without doing a lot of online research, it's difficult to find out about key variables like yield to maturity and duration.	Outstanding. ETF companies offer a full profile of all their products with daily updates. For bond ETFs, you can find data on things like yield to maturity, 12-month trailing yield, duration and the credit ratings of the bonds in the portfolio.	All you get are the basics for any bond you're considering – price and yield, maturity date and credit rating.
<i>Score out of 5</i>	0	5	2
Mechanics Of buying	Couldn't be easier – you simply need to choose a fund and decide how much you want to invest. Funds are bought and sold at a unit price set at the end of the trading day.	Bought and sold like a stock, which means you need to know how to submit a trade through an online broker. You can place an order at the current market price for your ETF, or set a lower price and wait to see if your order is filled.	Locate a bond you want to buy and then make sure your broker has sufficient inventory on hand to fill your order. You will also have to pay the seller accrued interest, which is a pro-rated share of the next semi-annual interest payment.
<i>Score out of 5</i>	4	4	3
Portfolio Building	There are six categories of bond fund – Canadian, short-term, long-term, real return, high yield and global. But all funds are run differently, which means it's difficult to be sure exactly what approach your manager is using.	Bond ETFs are precision portfolio-building tools with clear mandates. The BMO ETF family includes short-, medium and long-term ETFs for federal government, provincial and corporate bonds. In the iShares family, there are ETFs that replicate five- and 10-year bond ladders. You can also add high-yield bonds, emerging market bonds, real-return bonds and more.	Buying individual bonds offers the ultimate in flexibility, but you lack the diversification provided by both ETFs and mutual funds. This is not a concern with government or blue-chip corporate bonds, but it could be if you're buying corporate bonds with lesser credit ratings.
<i>Score out of 5</i>	2	5	2
What happens When interest Rates rise?	Bonds fall in value when rates rise, and this will be reflected in the unit price of bond funds. (Bonds and bond funds move in the opposite direction of interest rates.) There is no redemption date where you get your initial investment back, as there is with individual bonds.	Same as bond funds.	Can be volatile in price, especially bonds issued by non blue chip companies. But, default risk aside, you get your money back on maturity.
<i>Score out of 5</i>	2	2	4

Cont'd	Bond funds	Bond ETFs	Bonds
Liquidity	Funds can only be traded at end of day prices.	Can be traded at any time during stock market hours, with full transparency on the prices that other investors are bidding and asking.	Can be traded at any time during bond market hours, but without detailed pricing information. You're stuck with the price your broker is offering to sell or buy.
<i>Score out of 5</i>	1	5	3
Suitability for Generating Interest income	Typically pay interest on a quarterly or monthly basis. Interest payments will vary slightly in their amount.	Often pay monthly, with the amount of each payment varying slightly.	Semi-annual interest is the norm, and you get the exact same amount of cash with each payment.
<i>Score out of 5</i>	4	5	2
Total score out of 50	26	41	27

The Buyer's Guide Canadian ETFs

One of the most basic jobs you have as an investor is to get some exposure to the Canadian stock market in your portfolio. But if you use exchange-traded funds, you'll find upwards of a dozen and a half different ways to do this. Welcome to ETF-land, investors. For every job, there are many tools.

In the first instalment of the ETF Buyer's Guide, you'll find a list of ETFs suitable for consideration as core Canadian equity funds in a portfolio. There are lots of choices for buying the well-known S&P/TSX composite and S&P/TSX 60 indexes, plus many new indexes with less of a track record.

A quick word about diversification. The Canadian market is made up of heavy hitting sectors like financials and energy, and pipsqueaks like technology and technology. Some ETFs listed here exaggerate this skew with weightings in financials of 40 to 50 per cent or more. Be cautious about having that much of your Canadian market ETF tied up in a single sector.

Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol. / past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	Launch Date	5-y'r % rth (Nov 30)	3-y'r % rth (Nov 30)	1-y'r % rth (Nov 30)
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BMO S&P/TSX Capped Composite Index ETF

A top contender as a go-to ETF for core Canadian exposure.

A fair bit cheaper than its main competitor, XIC.

ZCN	1,020	0.17	0	17.97	2.8	41,618	Quarterly	Financials: 35.4% Energy: 24.7% Materials: 12.3%	RBC: 6.3% TD: 5.5% BNS: 4.7%	8.7	0.6	n/a	09-05-29
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BMO Low Volatility Canadian Equity ETF

A much tamer mix of stocks than in most Canadian equity ETFs, but check out the top holdings.

Not your usual mix of Canadian blue chips. Perhaps this is more of a complementary fund than a core position.

ZLB	143	0.4	0	20.13	2.2	12,335	Quarterly	Financials: 18.9% Cons Staples: 17% Cons Discr: 14%	FFH: 4.6% DOL: 4.4% MRU: 3.8%	21.3	n/a	n/a	11-10-21
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtn (Nov 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr	Launch Date
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Horizons S&P/TSX 60 Equal Weight Index ETF

Overlooked by investors, and rightly so. Fees on the high side, and no discernible benefits from the equal weighting approach.

HEW	11	0.53	0.14	11.55	2.3	1,340	Quarterly	Energy: 24.9% Materials: 18.4% Financials: 16.8%	RBC: 1.7% TD: 1.7% BNS: 1.7%	5.9	0.8	n/a	10-07-14
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iShares Cdn Fundamental Index Fund

A great long-term performer that remains a niche player. The high financials weighting is cause for caution.

CRQ	222	0.72	0	13.16	2.3	16,654	Quarterly	Financials: 42.3% Energy: 27.3% Materials: 8.2%	RBC: 7.3% TD: 6.2% BNS: 4.9%	14.7	3.1	8.5	06-02-22
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iShares Dow Jones Cda Select Growth Index Fund

Has had its moments in the past five years, but doesn't deliver consistently competitive returns.

XCG	22.8	0.55	0.04	23.04	1.6	2,516	Quarterly	Materials: 23.7% Industrials: 19.9% Energy: 18.4%	CNR: 11% ENB: 9.9% POT: 7.5%	2.7	-1.7	6.3	06-11-06
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iShares Dow Jones Cda Select Value Index Fund

Good five-year returns and a nice dividend yield. But the financials weighting is massive, especially if you also own bank stocks.

XCV	56.1	0.55	0.01	22.40	3.1	2,258	Quarterly	Financials: 55.6% Energy: 19.7% Materials: 7.7%	RBC: 10.2% TD: 10.1% BNS: 8.7%	13.9	3.5	6.7	06-11-06
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iShares Jantzi Social Index Fund

A good option for investors who want a socially responsible version of the Canadian market in their portfolios. Companies in the fund are best-in-class in a variety of social measures.

XEN	21.6	0.55	0.01	19.53	2.4	1,213	Quarterly	Financials: 41.6% Energy: 17.1% Materials: 11.2%	RBC: 10.9% TD: 9.5% BNS: 8.2%	13.2	3.2	6.9	07-05-14
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtn (Nov 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr	Launch Date
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iShares MSCI Canada Minimum Volatility Index Fund

Better diversified than the mainstream indexes, but too soon to say if it gels.

XMV	16.2	0.34	0.02	23.25	2.5	1,694	Quarterly	Energy: 20.9% Financials: 19.1% Cons Staples: 8%	BMO: 3.3% TD: 3.3% CM: 3.3%	9.5	n/a	n/a	12-07-24
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iShares S&P/TSX 60 Index Fund

Check the assets - this is Jupiter in Canada's solar system of ETFs. Cheap, liquid and built on blue chips. You can't really go wrong.

XIU	11,813	0.18	0	19.24	2.9	3,769,581	Quarterly	Financials: 37.5% Energy: 22.8% Materials: 11.3%	RBC: 8.4% TD: 7.3% BNS: 6.3%	9.4	1.1	5.7	99-09-28
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iShares S&P/TSX Capped Composite Index Fund

Hard to see the appeal with ZCN around.

XIC	1,305	0.27	0	20.99	2.7	82,455	Quarterly	Financials: 35.1% Energy: 23.6% Materials: 12.3%	RBC: 6.3% TD: 5.5% BNS: 4.7%	8.6	1.0	6.7	01-02-16
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PowerShares FTSE RAFI Cdn Fdtml Index ETF

A cheaper version of CRQ that hasn't yet caught on.

PXC	98.2	0.5	0	22.50	2.7	3,473	Quarterly	Financials: 42.9% Energy: 28.2% Materials: 7.7%	RBC: 7.3% TD: 6.2% BNS: 4.9%	12.8	n/a	n/a	12-01-26
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PowerShares S&P/TSX Composite Low Vol Index ETF

Another attempt to lure conservative investors into the stock market by offering a less volatile mix of stocks. Too heavy on financials to be a core fund.

TLV	18.4	0.34	0.04	22.22	3.7	1,476	Monthly	Financials: 59.5% Energy: 14.7% Cons Disc: 7.4%	BMO: 2.9% CM: 2.8% NA: 2.8%	8.9	n/a	n/a	12-04-24
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtn (Nov 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr	Launch Date
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PowerShares S&P/TSX Composite High Beta Index ETF

Stick a fork in this one. No diversification and high costs. No one's buying it.

THB	2.9	0.34	0.59	12.88	1.0	1,245	Quarterly	Materials: 91.2% Energy: 8.8%	SMF: 3.9% OGC: 3.1% ASR: 2.8%	-29.9	n/a	n/a	12-04-24
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Vanguard FTSE Canada All Cap Index ETF

Something new for the Canadian market - an ETF that wraps small, medium and large stocks into one fund. In the U.S. market, this approach has worked well for investors.

VCN	13.4	0.12*	n/a	26.50	n/a	5,961	Quarterly	Financials: 35.1% Energy: 25.8% Materials: 13.5%	RBC: 6.4% TD: 5.8% BNS: 4.8%	n/a	n/a	n/a	13-08-02
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Vanguard FTSE Canada Index ETF

Frugal investors, don't overlook this one.

VCE	185	0.11	0	27.82	2.2	11,984	Quarterly	Financials: 39.5% Energy: 24.5% Materials: 12.4%	RBC: 7.9% TD: 7.1% BNS: 5.8%	10.1	n/a	n/a	11-11-30
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*management fee only; the fund is too new to have computed a management expense ratio.

Source: Globeinvestor.com, company websites and regulatory filings

Horizons S&P/TSX 60 Index ETF

The cheapest way for investors to buy Canada, and growing in popularity. But the use of derivatives to mimic the performance of the S&P/TSX index is a turnoff for risk-averse investors. Dividends are built into the share price return - no cash is paid quarterly.

HXT	949.7	0.06	0	23.60	n/a	195,729	none	Financials: 34.3% Energy: 26.3% Materials: 11.4%	RBC: 8.3% TD: 7.4% BNS: 6.1%	12.8	4.1	n/a	10-09-13
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Assets (\$-mil)	TER (%)	MER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	1-yr % rtn (Nov 30)	3-yr % rtn (Nov 30)	5-yr % rtn (Nov 30)	Launch Date
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First Asset Morningstar Cda Momentum Index

Pricey, when you add the TER and MER together, and too new to really judge despite strong early returns. Trading volume suggests there's some interest from investors.

WXM	51.3	0.67	0.12	13.07	1.1	33,183	Quarterly	Materials: 13.4% Energy: 13.4% Industrials: 13.3%	STN: 3.9% HCG: 3.7% WJA: 3.6%	23.2	n/a	n/a	12-02-15
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First Asset Morningstar Cda Value Index ETF

Like WXM, this fund offers a superior level of diversification than mainstream indexes and impressive early results. What we don't know is how it will perform over a full market cycle.

FXM	66.4	0.68	0.21	13.84	1.6	40,193	Quarterly	Industrials: 17.2% Cons Staples: 16.5% Financials: 13.2%	WJA: 3.7% TCLA: 3.7% GNV: 3.7%	28.5	n/a	n/a	12-02-15
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The Buyer's Guide U.S. Equity ETFs

U.S. Equity ETFs could be the most confusing category of them all for investors.

All the usual selection criteria apply when researching TSX-listed exchange-traded funds covering the U.S. stock market – including fees, the index being used and the diversification being offered. The extra step with U.S. equity funds concerns currency hedging. Many ETFs have it, a growing number don't and a few others give you a choice of hedged or unhedged exposure to U.S. stocks.

A quick primer on hedging here: It eliminates distortions to index returns caused by fluctuations in the Canadian dollar against the U.S. buck, while also adding a bit to an ETF's fees in some cases, and contributing to tracking error. That's where an ETF's returns wander off the ideal path of index returns minus fees. Hedging means your U.S. returns won't be undermined when our dollar rises, nor will they be enhanced when the dollar falls. If you forgo the hedge, you lose out when our dollar rises and benefit when it falls. The purpose of this guide isn't to recommend hedging or not – that's your call. Rather, it's to round up your ETF options for investing in the broad U.S. market and help you make an informed choice.

Originally published Dec. 6, 2013.

Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtn (Nov 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr	Launch Date
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BMO Dow Jones Industrial Average Hedged to CAD Index ETF

Are you sure you want the Dow Jones Industrial Average instead of the much more diversified S&P 500? If so, this ETF is the only game in town as far as TSX-listed ETFs go.

ZDJ-T	151	0.26	0	27.46	1.9	6,284	Quarterly	Industrials Technology Financials	Visa Inc. IBM Corp. Goldman Sachs	26.3	15.5	n/a	5-29-09
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BMO S&P 500 Index ETF

BMO's pricing tucks in just a bit below Vanguard's for this type of fund, but iShares has the lowest fees. Fees are even cheaper for U.S.-listed S&P 500 ETFs, but you'll be dinged by your broker's foreign exchange charges when you buy them.

ZSP-T	726.9	0.17	0	21.2	1.5	136,231	Quarterly	Technology Financials Health care	Apple Exxon Mobil Google	38.7	n/a	n/a	11-14-12
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BMO S&P 500 Hedged to CAD Index ETF

Check out the one-year numbers for this ETF and its sibling, the unhedged ZSP. They're a clear illustration of how unhedged ETFs will outperform those with hedging when the Canadian dollar falls like it has in the past year. Of course, the opposite will happen when our dollar rises. Note: Vanguard's hedged S&P 500 ETF is cheaper.

ZUE-T	474.9	0.23	0.01	27.61	1.7	22,936	Quarterly	Technology Financials Health care	Apple Exxon Mobil Google	30.9	17.1	n/a	5-29-09
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BMO Low Volatility U.S. Equity ETF

Bears watching as an option for investors who want U.S. exposure with less volatility than the broader market. Theoretically, low volatility should mean less extreme highs and lows. Would you be happy lagging the markets on the upside in exchange for missing the worst of a pullback? No currency hedging.

ZLU-T	12.2	0.34	0	17.44	1.7	1,561	Quarterly	Health care Cons. staples Utilities	Autozone Dollar Tree Family Dollar Stores	n/a	n/a	n/a	3-19-13
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First Asset Morningstar U.S. Momentum Index ETF (CAD Hedged)

Tracks a new index of large, liquid stocks selected for their positive momentum in earnings and price. Back testing shown on the First Asset website suggests much better returns than the S&P 500 over time, but smart investors will wait for real-world results before deciding whether to jump in.

YXM-T	14.6	0.6*	n/a	10.61	n/a	9,091	Quarterly	Cons. discret. Cons. staples Energy	Rite Aid Nu Skin Enterp. Web MD Health	n/a	n/a	n/a	10-22-13
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Note: *these are management fees, which will be slightly lower than the MER once it's established for these new funds. Sources: ETF company websites, Globeinvestor.com

Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rth (Nov 30) 1-yr (Nov 30)	% rth (Nov 30) 3-yr (Nov 30)	% rth (Nov 30) 5-yr (Nov 30)	Launch Date
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First Asset Morningstar U.S. Value Index ETF (CAD Hedged)

The tamer sibling of YXM focuses on big companies that are considered "good value" based on factors like low price-earnings and price-to-cash flow ratios. As with YXM, this ETF would seem to be more of a complement to an S&P 500 ETF than a substitute.

XXM-T	25	0.6*	n/a	10.67	n/a	8,863	Quarterly	Cons. discret. Cons. staples Energy	Men's Warehouse Hewlett Packard Omnivision	n/a	n/a	n/a	10-22-13
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Horizons S&P 500 Index ETF

Consider this ETF if you're investing in a TFSA or non-registered account, where your dividends would be subject to a U.S. withholding tax. This ETF provides a total return for the S&P 500, which means share prices rise and fall by the change in the index plus dividends. No dividends are paid in cash to unitholders. The high TER here reflects the cost of the derivative-based structure - the fund does not hold actual stocks. Hedging was used on this ETF until March 31, 2013, and then discontinued.

HXS-T	75.7	0.17	0.28	31.33	none	35,341	none	Technology Financials Health care	Apple Exxon Mobil Google	35.8	18.9	n/a	11-30-10
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iShares U.S. Fundamental Index Fund

Expensive as ETFs go, but the returns have been huge. Uses an indexing process where stocks are weighted using factors beyond size, including revenues, dividends, book value and cash flow. Not a small ETF, but clearly hasn't gained the wide market acceptance of more traditional S&P 500 funds.

CLU-T	204.6	0.72	0.01	24.55	0.9	11,823	Quarterly	Financials Cons. services Industrials	Exxon Mobil Bank of America GE	34.4	17.5	17.7	9-8-06
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iShares Nasdaq 100 Index Fund (CAD-Hedged)

For investors who want a TSX-listed way to buy the tech-heavy Nasdaq 100 index with currency hedging. PowerShares offers a cheaper but less popular fund of this type (see below).

XQQ-T	34.8	0.39	0	28.94	1.5	3,212	Semi-annual	Technology Cons. services Health care	Apple Microsoft Google	32.1	n/a	n/a	5-3-11
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iShares S&P 500 Index Fund

The low-cost leader among TSX-listed S&P 500 ETFs that don't use currency hedging. If you want a REALLY cheap S&P 500 fund and don't care about hedging, check out the U.S.-listed Vanguard S&P 500 ETF (VOO), with a fee of just 0.05 per cent.

XUS-T	67	0.14	0	24.01	0.6	12,160	Semi-annual	Technology Financials Health care	Apple Exxon Mobil Google	n/a	n/a	n/a	4-10-13
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Note: *these are management fees, which will be slightly lower than the MER once it's established for these new funds. Sources: ETF company websites, Globeinvestor.com

Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtn (Nov 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr	Launch Date
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iShares S&P 500 Index Fund (CAD-hedged)

The oldest TSX-listed ETF focusing on the U.S. market is also the largest and most heavily traded by far. Most investors would do just fine with Vanguard's cheaper hedged S&P 500 offering.

XSP-T	1,979	0.25	0	20.7	1.5	266,256	Semi-annual	Technology Financials Health care	Apple Exxon Mobil Google	30.5	17.2	16.2	5-24-01
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iShares MSCI USA Minimum Volatility Index Fund

Competes against the identically priced ZLU, but with an index methodology that produces different top holdings and sectors. One to watch if you want a more docile take on the U.S. market.

XMU-T	24.2	0.34	0	25.4	1.7	2,761	Quarterly	Software Pharma Food & beverage	ADP Merck Wal-Mart	29.7	n/a	n/a	7-24-12
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PowerShares FTSE RAFI U.S. Fundamental (CAD hedged) Index ETF

Tracks the same index as CLU, but charges less in fees and thus has delivered a bit more in returns.

PXU-T	99.3	0.57	0.01	28.22	1.2	2,682	Quarterly	Financials Energy Cons. discret.	Exxon Mobil Bank of America GE	34.8	n/a	n/a	1-26-12
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PowerShares S&P 500 Low Volatility (CAD Hedged) Index ETF

This third option for low volatility investing in the U.S. market has been around long enough to produce a one-year return. Notice how much less it made than S&P 500 ETFs; that may be your price for owning "safer" stocks.

ULV-T	59.7	0.36	0.02	25.31	2.2	5,251	Monthly	Utilities Cons. staples Financials	Johnson & Johnson McDonald's Sigma-Aldrich	21	n/a	n/a	1-24-12
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PowerShares S&P 500 High Beta (CAD Hedged) Index ETF

Whoa. Massive one-year returns that came in a fast-rising market. But what happens when stocks go south? Don't buy until you know the answer.

UHB-T	3.4	0.4	0.08	27.19	0.5	1,846	Quarterly	Financials Energy Cons. discret.	PulteGroup Vertex Pharma Genworth Financial	43.3	n/a	n/a	4-24-12
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	1-yr % rtn (Nov 30)	3-yr % rtn (Nov 30)	5-yr % rtn (Nov 30)	Launch Date
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PowerShares QQQ (CAD hedged) Index ETF

The U.S.-listed version of this fund is one of the most popular ETFs of all. It trades under the symbol QQQ and the cost to own it is just 0.2 per cent.

QQQ-T	12.2	0.34	0.03	30.61	0.8	1,307	Quarterly	Technology Cons. discret. Health care	Apple Microsoft Google	32.2	n/a	n/a	6/16/11
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Vanguard S&P 500 ETF

Not the cheapest, but still a good low-fee option for the investor who isn't interested in hedging.

VFV-T	211.2	0.18	0	34.11	1.6	13,736	Quarterly	Technology Financials Health care	Apple Exxon Mobil Google	38.7	n/a	n/a	11-2-12
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Vanguard S&P 500 ETF (CAD-hedged)

Unlike BMO and iShares, Vanguard prices its hedged and unhedged S&P 500 ETF the same.

VSP-T	35	0.18	0	31.95	1.6	8,721	Quarterly	Technology Financials Health care	Apple Exxon Mobil Google	30.5	n/a	n/a	11-2-12
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Vanguard U.S. Total Market Index ETF

This ETF's broader exposure to the U.S. market is reflected in the fact that there are roughly 3,500 stocks in the portfolio, compared to 500 for the S&P 500. A U.S.-listed version of this fund trades under the symbol VTI and has a fee of just 0.05 per cent.

VUN-T	27.9	0.17	n/a	27.08	1.2	13,505	Quarterly	Financials Technology Cons. services	Apple Exxon Mobil Google	n/a	n/a	n/a	8-2-13
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Vanguard U.S. Total Market Index ETF (CAD-hedged)

VUN with currency hedging.

VUS-T	186	0.17	0	36.39	1.5	13,517	Quarterly	Financials Technology Cons. services	Apple Exxon Mobil Google	31.6	n/a	n/a	11/30/11
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The Buyer's Guide Global ETFs

Canadian investors have long and justifiably been criticized for not having enough exposure to global stock markets.

It turns out the exchange-traded fund companies are guilty of exactly the same thing. I was initially going to write a guide to international funds, or those covering developed stock markets outside North America. But the small number of funds in this category left room for more.

As a result, you'll find emerging markets here, as well as global dividend funds. Country-specific funds were left out on the basis that they're more for speculation and not a core investment.

One thing you won't find in this list is a wide selection of global funds, which are an all-in-one way to get exposure to broad stock market indexes in the United States and elsewhere. The mutual fund industry has lots to offer in global funds, but ETF companies have almost ignored the category. As a result, you'll likely need to partner an international ETF with a U.S. fund to complement your Canadian stock holdings.

And now for a quick word about currency hedging, which cuts the distortion in returns caused by our dollar's ups and downs versus global currencies. Hedging adds to your investing costs in some cases, and it can undermine returns a bit by causing what's known as tracking error. It's useful to have hedging when the Canadian dollar is rising, but you'll find it a drag on returns when our currency is falling. ETFs that are hedged typically have the term "CAD hedged" in their name, with CAD being an investment industry short-form for the Canadian dollar.

Originally published Jan. 17, 2014.

Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	1-yr % rtn (Dec. 30)	3-yr % rtn (Nov 30)	5-yr % rtn (Nov 30)	Launch Date
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BMO MSCI EAFE Hedged to CAD Index ETF

Tracks the MSCI Europe Australasia Far East Index, the most widely followed benchmark for international investing. Fees a little higher than the iShares competition, but seems to hug the index better.

ZDM-T	747.2	0.52	0.18	17.98	2.3	18,713	Quarterly	Financials Industrials Cons. Discr.	iShares MSCI EAFE ETF Nestle HSBC Holdings	27	9	n/a	09-10-20
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BMO MSCI Emerging Markets Index ETF

A reasonable choice, but investors seem to be gravitating these days to Vanguard's lower-cost VEE.

ZEM-T	81.5	0.65	0.11	15.38	2.2	8,936	Annually	Financials Info tech Energy	iShares MSCI Taiwan ETF iShares MSCI Brazil ETF iShares MSCI Emer Mkt Index ETF	4.6	-0.9	n/a	09-10-20
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First Trust AlphaDEX Emerging Market Dividend ETF (CAD-Hedged)

People just aren't buying this recently introduced ETF, which tracks an index of dividend-paying emerging market stocks that meet various criteria for liquidity, size and growth. Days and days go by without a single share changing hands.

FDE-T	5.9	0.65*	n/a	19.57	3.2	8	Monthly	Telecom Info tech Financials	SouFun Holdings E-House China Tal Education Group	n/a	n/a	n/a	13-05-15
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*management fee only; shown for newer funds that do not yet post a full MER (management fees are a component of MER); Source: ETF company websites; globeinvestor.com

Horizons Active Emerging Markets Dividend ETF

A much tamer mix of stocks than in most Canadian equity ETFs, but check out the top holdings. Not your usual mix of Canadian blue chips. Perhaps this is more of a complementary fund than a core position.

HAI-T	5.0	0.89	0.18	11.22	2.8	406	Monthly	Telecom Info tech Cons. Staples	SouFun Holdings Fomento Economico Siliconwear Precision Ind.	8.6	n/a	n/a	12-10-10
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Horizons Active Global Dividend ETF

An actively managed ETF with almost two-thirds of the portfolio in the U.S. market, and another 6 per cent is in Canada. So not ideal for those who want international exposure.

HAZ-T	95.9	0.94	0.06	14.88	2.6	5,351	Monthly	Financials Cons. Staples Energy	SK Telecom Reynolds American JPMorgan Chase	25.5	11.7	n/a	10-07-21
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtm (Dec. 30)	1-yr % rtm (Nov 30)	3-yr % rtm (Nov 30)	5-yr % rtm (Nov 30)	Launch Date
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iShares MSCI EAFE Index Fund (CAD-Hedged)

Canada's oldest, biggest and most heavily traded ETF choice for investing outside North America. There's a cheaper, unhedged iShares alternative to this fund (XEF) and a low-volatility version (XMI) that smooths the ups and downs of the world index.

XIN-T	1,099.0	0.5	0.01	22.12	2.1	111,838	Semi-annually	Financials Consumer Discr. Industrials	Nestle HSBC Holdings Roche Holdings	25.1	8.8	n/a	01-09-06
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iShares MSCI Emerging Markets Index Fund

There's heavy duty fee competition in the ETF world these days, but the MER for this expensive fund doesn't reflect it. For a less wild ride in emerging markets, consider the low volatility version of this fund (XMM).

XEM-T	272.6	0.79	0.02	24.79	1.8	13,243	Semi-annually	Financials Info tech Energy	Samsung Taiwan Semiconductor Tencent Holdings	2.3	-0.6	n/a	09-06-18
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iShares Emerging Markets Fundamental Index ETF

Uses an indexing process where stocks are weighted using factors like revenues, dividends, book value and cash flow instead of market capitalization. This approach has worked well in the Canadian and U.S. markets, but not so much here.

CWO-T	55.2	0.69	0.09	28.96	2.6	6,233	Quarterly	Financials Oil and gas Telecom	iShares MSCI Taiwan ETF iShares India Nifty 50 ETF Gazprom	-0.6	-4.1	n/a	09-04-07
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iShares MSCI World Index Fund

Add a Canadian equity and bond ETF to XWD and you've got a nicely diversified portfolio with just three funds. Note: There's a low-volatility version of this ETF that trades under the ticker XMW.

XWD-T	176.4	0.47	0	33.31	1.6	15,665	Semi-annually	Financials Info tech Consumer Discr.	iShares Core S&P 500 ETF iShares MSCI Core EAFE ETF iShares MSCI Canada ETF	33.9	13.6	n/a	09-06-18
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iShares International Fundamental Index Fund

Another fundamental index fund, which means costs on the high side. Returns have been above and below the EAFE index in recent years.

CIE-T	218.4	0.72	0.04	17.17	1.8	15,921	Quarterly	Financials Industrials Consumer goods	Toyota Nestle Mitsubishi	32.5	8.9	n/a	07-02-14
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% rtm (Dec. 30)	1-yr % rtm (Nov 30)	3-yr % rtm (Nov 30)	5-yr % rtm (Nov 30)	Launch Date
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iShares Global Monthly Dividend Index ETF

Tracks the Dow Jones Global Select Dividend Composite Index CAD-Hedged, which seeks out better quality dividend stocks from the both developed and emerging markets. Canadian and U.S. stocks account for close to half the holdings.

cyh-T	118.3	0.68	0	16.97	3.4	11,547	Monthly	Utilities Financials Industrials	Lockheed Martin Chevron Philip Morris	13.8	5.6	n/a	08-01-15
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RBC Quant EAFE Dividend Leaders ETF (CAD-unhedged)

A new international dividend ETF that uses a "rules-based" screening approach emphasizing strong balance sheets and sustainable, growable dividends. After underwhelming the ETF market with its previous offerings, RBC will want a good showing from this and other funds in the new Quant series.

RID-T	3.0	0.49	n/a	20.28	n/a	n/a	Monthly	Financials Industrials Energy	HSBC Holdings Royal Dutch Shell BASF	n/a	n/a	n/a	14-01-15
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Vanguard FTSE Developed ex North America Index ETF (CAD-hedged)

Vanguard has chosen to go with a FTSE index instead of the standard MSCI EAFE index, resulting in lower costs that in the future may be passed on to investors. A relatively new, unhedged version (VDU) is also available.

VEF-T	227.2	0.43	0	34.12	2	15,005	Quarterly	Financials Consumer goods Industrials	Nestle Royal Dutch Shell HSBC Holdings	26.4	n/a	n/a	11-11-30
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Vanguard FTSE Emerging Markets Index ETF

The low-cost leader in TSX-listed emerging markets ETFs has been a hit with investors.

VEE-T	163.8	0.54	0	26.23	2	19,627	Quarterly	Financials Oil and gas Consumer goods	Taiwan Semiconductor Tencent Holdings Petroleo Brasileiro	0.9	n/a	n/a	11-11-30
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The Buyer's Guide Income-paying ETFs

Give us dividends. Give us bond interest. Give us distributions from real estate investment trusts.

Canada's aging population naturally gravitates toward income investments, but that doesn't fully explain the proliferation of income-paying exchange-traded funds. All ETF firms now offer dividend and diversified income funds that in most cases make monthly payments of cash.

So, let's put these products under the microscope. There are so many income ETFs that some rules had to be set for inclusion here. Funds must focus on the Canadian market and be core investments rather than specialty products like covered call ETFs (they use financial tools called derivatives to generate investment income)..

One of the most important variables in choosing income ETFs is the yield, which can be measured a few different ways. Here, you'll find the distribution yield, also sometimes known as portfolio yield. It's calculated using recent monthly or quarterly payouts and the latest share price.

Originally published Feb. 07, 2014.

Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	% 1-yr (Nov 30)	% 3-yr (Nov 30)	% 5-yr (Nov 30)	Launch Date
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BMO Canadian Dividend ETF

Uses a rules-based process for selecting stocks based on growth, yield and payout ratio. The result is a portfolio with less of a weighting in financials than many competitors, and a higher yield. Fees on the low side.

ZDV-T	316.7	0.39	0.02	16.78	4.7	32,556	Monthly	Energy Financials Utilities	TransAlta Veresen Cdn. Oil Sands	12.2	n/a	n/a	11-10-21
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BMO Equal Weight REITs Index ETF

Each REIT in the portfolio has a weighting of roughly 6 per cent; in other REIT ETFs, RioCan and H&R together take up about one-third of the portfolio

ZRE-T	325	0.62	0	18.94	5.3	32,707	Monthly	REITs	Northern Property REIT Chartwell Retirement Dundee Int'l REIT	-4.6	8.7	n/a	10-05-19
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BMO Monthly Income ETF

With risky high yield and emerging market bonds as top holdings, this isn't an ideal core position for a portfolio. Maybe a small helping to diversify more conservative income investments.

ZMI-T	78.8	0.62	0	15.80	4.6	4,116	Monthly	Corp. bonds Financials Dividend equity	BMO High Yield U.S. BMO Emerging Market Bond BMO Eq Weight Utilities	3.2	n/a	n/a	11-01-28
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BMO S&P/TSX Laddered Preferred Share Index ETF

Canada's top-selling ETF of last year holds rate reset preferred shares, which are more adaptable to rising interest rates than some other types of preferred shares. Laddering means some shares in the portfolio will have their dividend rate reset every year to adjust to interest rate changes.

ZPR-T	930.5	0.49	0	13.93	4.6	47,618	Monthly	Banks Insurance Oil and gas	Bank of Montreal Enbridge BCE	-3.5	n/a	n/a	12-11-14
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First Asset Morningstar Canada Dividend Target 30 Index ETF

This newer fund holds large, liquid dividend stocks selected using research from the independent analysis firm Morningstar. Early results look promising, but you'll want more of a track record before buying.

DXM-T	25.8	0.66	0.13	10.60	3.2	4,542	Quarterly	Energy Financials Cons. discr.	Pembina Pipeline Saputo Potash Corp.	17.5	n/a	n/a	12-02-02
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Launch Date	5-yr % rth (Nov 30)	3-yr % rth (Nov 30)	1-yr % rth (Nov 30)	Top Three Holdings	Top Three Sector Weightings	Distribution Frequency	Avg daily trading vol./ past 30 days	Dividend Yield (%)	Recent Price (\$)	TER (%)	MER (%)	Assets (\$-mil)	Ticker
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Horizons Active Canadian Dividend ETF

An actively managed ETF that focuses on companies with above-average dividend yields. Higher fees than most rivals, but returns have been competitive.

HAL-T	12.4	0.93	0.11	13.05	3.1	1,255	Monthly	Financials Energy Industrials	Royal Bank of Canada Bank of Nova Scotia Bank of Montreal	18.9	9.1	n/a	10-02-10
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iShares S&P/TSX Canadian Dividend Aristocrats Index Fund

Solid five-year returns from this popular dividend ETF, but the name is almost a joke. Top holdings include more of the dividend proletariat.

CDZ-T	943.0	0.66	0.01	24.32	3.5	105,625	Monthly	Financials Energy Industrials	Exchange Income Corp. AGF Mgt. Bird Construction	13.5	9.6	15.9	06-09-08
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iShares S&P/TSX Canadian Preferred Share Index Fund

The most popular of the preferred share ETFs listed here, as judged by asset size and trading volume. The loss in 2013 reflects the vulnerability of preferred shares when bond yields move higher, as they did last summer.

CPD-T	1,279.0	0.5	0.02	16.02	4.2	106,621	Monthly	Banks Insurance Energy	TransCanada Enbridge BCE	-3	2.3	7.6	07-04-10
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iShares Diversified Monthly Income Fund

The high yield looks appealing, but the holdings of this ETF suggest it could take a hit in a rising rate environment. The MER includes the fees of the underlying ETFs in the portfolio - there are no extra costs.

XTR-T	694.0	0.57	0.03	11.99	6	57,509	Monthly	Financials Utilities REITs	iShares DEX Hybrid Bond Index Fund iShares U.S. High Yield Bond Index Fund iShares 1-5 Yr Laddered Corp. Bond Index ETF	2	5.5	13.7	05-12-19
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iShares Dow Jones Canada Select Dividend Index Fund

The giant among TSX-listed dividend ETFs is roughly 50 per cent weighted in financials. Top holdings reflect a more blue chip profile than CDZ, and returns have been better in the past few years.

XDV-T	1,350.0	0.55	0	23.6	4.1	74,502	Monthly	Financials Energy Telecom	CIBC TD Bank National Bank Saputo Potash Corp.	19	10.2	15.6	05-12-19
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Ticker	Assets (\$-mil)	MER (%)	TER (%)	Recent Price (\$)	Dividend Yield (%)	Avg daily trading vol./ past 30 days	Distribution Frequency	Top Three Sector Weightings	Top Three Holdings	1-yr % rth (Nov 30)	3-yr % rth (Nov 30)	5-yr % rth (Nov 30)	Launch Date
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iShares S&P/TSX Equity Income Index Fund

Tracks an index of higher yielding stocks in the S&P/TSX composite index. Offers a higher yield than many competitors, but could prove to be more volatile as a result of some non blue chip holdings.

XEI-T	180.6	0.61	0	21.15	4.5	9,005	Monthly	Energy Financials Utilities	Potash Corp. Royal Bank of Canada BCE	15.1	n/a	n/a	11-04-12
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iShares S&P/TSX N. Amer. Pfd Stock Indx Fd (CAD-Hedged)

About half the portfolio is in U.S. preferred shares (currency hedging is used). The U.S. content adds yield and helped with performance last year. Financial stocks account for two-thirds of the portfolio.

XPF-T	166.2	0.48	0.02	19.08	6.1	10,052	Monthly	Energy Financials Utilities	iShares U.S. Preferred Stock ETF TransCanada Enbridge	-1.9	3.3	n/a	10-11-16
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iShares S&P/TSX Capped REIT Index Fund

The most popular choice among investors who want exposure to a basket of REITs. The Top Three holdings account for about 40 per cent of the portfolio - check out ZRE if that troubles you.

XRE-T	1,203.0	0.6	0	15.52	4.9	143,933	Monthly	REITs	RioCan REIT H&R REIT Dundee REIT	-6	9.7	19.7	02-10-17
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PowerShares Canadian Dividend Index ETF

Good returns last year, but has yet to catch on in the crowded Canadian dividend ETF category.

PDC	20.0	0.55	0.01	23.53	3.4	1,499	Monthly	Financials Energy Cons. Discr.	TD Bank RBC Bank of Nova Scotia	20.2	n/a	n/a	11-06-16
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PowerShares Canadian Preferred Share Index ETF

Tracks the NASDAQ Select Canadian Preferred Share Index, which has the same heavy financial weighting as other preferred share indexes - 60 per cent in this case. A slightly higher yield than CPD.

PPS	152.0	0.51	0.08	17.75	4.5	29,984	Monthly	Financials Utilities Energy	TD Bank Cdn Utilities BCE	-5.8	n/a	n/a	11-06-16
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Launch Date	5-yr % rth (Nov 30)	3-yr % rth (Nov 30)	1-yr % rth (Nov 30)	Top Three Holdings	Top Three Sector Weightings	Distribution Frequency	Avg daily trading vol./ past 30 days	Dividend Yield (%)	Recent Price (\$)	TER (%)	MER (%)	Assets (\$-mil)	Ticker
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RBC Quant Canadian Dividend Leaders ETF

A brand new fund that uses a rules-based stock selection process seeking strong balance sheets, sustainable dividends and dividend growth potential. Fees are quite reasonable, and the financials weighting is in the 40 per cent range.

RCD	3.0	0.39*	n/a	19.82	n/a	1,516	Monthly	Financials Energy Materials	Bank of Nova Scotia Bank of Montreal Enbridge	n/a	n/a	n/a	14-01-15
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Vanguard FTSE Canadian Capped REIT Index ETF

The cheapest of the REIT ETFs listed here has a lower yield than its competitors, but in 2013 delivered a better result.

VRE	32.1	0.39	0.01	24.91	2.4	3,139	Monthly	Real Estate	RioCan REIT H&R REIT Brookfield Office Properties	-1.4	n/a	n/a	12-11-02
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Vanguard FTSE Canadian High Dividend Yield Index ETF

Tracks an index of higher-yielding Canadian stocks, excluding REITs, and has about 60 per cent of its assets in financials. Not much trading volume yet, but the MER is a comparative bargain.

VDY	70.8	0.34	0.01	29.09	2.4	6,785	Monthly	Financials Energy Telecom	Royal Bank of Canada TD Bank Bank of Nova Scotia	20.3	n/a	n/a	12-11-02
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*management fee only; shown for newer funds that do not yet posted a full MER (management fees are a component of MER).

Source: ETF company websites, globeinvestor.com

The Buyer's Guide Bond ETFs

No matter what your interest rate outlook, there's a bond ETF for you. But just try and find it. With its manic slicing and dicing of the bond market and its copycat products, the exchange-traded fund industry is overwhelming investors who just want to pick a nice bond ETF or two for their portfolio.

It's these investors that the fifth and final instalment of The Globe and Mail ETF Buyer's Guide is aimed at. Here we look at core bond funds that, either alone or combined with a few others, can cover off all your bond needs.

Bond ETFs are a highly efficient, low-cost way to get diversified exposure to government and corporate bonds of all types. The only real hitch is that, whereas an actual bond matures and repays your principal, the typical bond ETF never matures. Instead, it rides interest rate trends over the years, increasing in value when interest rates retreat and falling in value when rates rise.

There are roughly 75 bond ETFs listed on the TSX, far too many to cover here. So we'll look at some of the largest ETFs by assets – the most popular funds, in other words – along with some others that were hand-picked because they offer an interesting option for investors seeking core bond funds.

Previous instalments of the Buyer's Guide have covered Canadian equity ETFs, U.S. equity ETFs, international equity ETFs and dividend and diversified income funds.

A key variable in choosing bond ETFs is yield, which can be measured in a few different ways. Used here is yield to maturity after fees, which is the best estimate of what yield you can expect looking forward. Do not use the yield figures shown in stock quotes for bond ETFs. These distribution yields can fool investors into thinking they'll get higher returns than they actually will. (consult the Portfolio Strategy bond ETF user's guide for more on this).

Here's some explanation of other terms you'll find in the ETF buyer's guide:

Assets Shown to give you a sense of how interested other investors are in a fund; unless they're new, the smallest funds may be candidates for delisting.

Management expense ratio (MER) The main cost of owning an ETF on an ongoing basis; as with virtually all funds, published returns are shown on an after-fee basis.

Average 30-day daily trading volume: Trading of less than 10,000 shares per day on average tells you an ETF isn't generating much interest from investors.

Top sector weightings Federal and provincial government bonds offer the least default risk and the most interest rate risk; corporate bonds offer more default risk and somewhat less rate risk. Note the heavy weighting in the financial sector that many corporate bond ETFs have as it mirrors the heavy financial weighting in many dividend ETFs. Be cautious about overexposure to financials, or any other sector.

Average duration Duration, measured in years, is a standard risk metric for bonds; if interest rates rise by one percentage point, the price of an ETF with a duration of five would fall five percentage points (and vice versa if rates fell).

Returns ETF companies typically disclose total returns, or share price change plus interest payments, or distributions.

Ticker	Assets (\$-mil)	MER (%)	Recent Price (\$)	After-Fee yield to maturity	Avg daily trading vol./ past 30 days	Top Three Sector Weightings	Average Duration (Years)	% rtn (Dec. 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr
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BMO Aggregate Bond Index ETF

Works fine as the only bond ETF in your portfolio thanks to a mix of government and corporate bonds. Cheap to own and popular with investors, as trading volumes show

ZAG-T	700.1	0.22	15.42	2.2	96,893	Federal government - 40% Provincial government - 30% Corporate - 30%	6.7	1.8	4.5	n/a
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BMO High Yield U.S. Corporate bond Hedged to CAD Index ETF

Slightly better returns than its iShares competitor, XHY. One difference between the two is that this fund has 299 holdings, while XHY has a more diversified portfolio of 781 holdings

ZHY-T	635.2	0.62	16.28	4.1	66,200	Misc. - 40% Tech	3.8	6.8	8	n/a
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BMO Mid Corporate Bond Index ETF

BMO offers short-, mid- and long-term options for government and corporate bond ETFs. Short-term bonds are the most defensive, while longer terms bring higher yields and more vulnerability to rising rates

ZCM-T	506.2	0.34	15.87	2.8	18,139	Financials - 34% Energy - 20% Communications - 19%	5.8	4.2	6.4	n/a
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BMO Mid-Term US IG Corporate Bond Index ETF

For exposure to the U.S.

ZIC-T	459.6	0.28	15.6	2.9	12,440	Banks - 21% Tech. 7% Pharma	6.5	n/a	n/a	n/a
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BMO Short Corporate Bond Index ETF

For conservative investors who want exposure to corporate bonds, which should hold up a little better than government bonds in a rising rate world. There are cheaper options out there, notably Vanguard's VSC

ZCS-T	670.6	0.34	14.84	1.6	41,780	Financials - 70% Communications - 6% Securitized - 6%	2.7	3	3.5	n/a
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Ticker	Assets (\$-mil)	MER (%)	Recent Price (\$)	After-Fee yield to maturity	Avg daily trading vol./ past 30 days	Top Three Sector Weightings	Average Duration (Years)	% rtn 1-yr (Dec. 30)	% rtn 3-yr (Nov 30)	% rtn 5-yr (Nov 30)
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First Asset DEX All Canada Bond Barbell Index ETF

A barbell is an equal weighting in short- and long-term bonds. No evidence yet that this comparative newcomer offers better results than more established bond ETFs

AXF-T	2.4	0.24	9.54	2.2	812	Government - 70% Corporate - 30%	5.5	1.5	n/a	n/a
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Horizons Active Corporate Bond ETF

Buying this ETF means you believe the people managing it will continue to outperform traditional index-tracking ETFs despite being somewhat more expensive to own. Holds a small amount in high yield

HAB-T	496.7	0.57	10.67	2.7	21,894	Financials - 50% Communications - 10% Energy - 10%	5.5	3.2	5.8	n/a
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Horizons Active Floating Rate Bond ETF

Floating rate bonds will hold up well if rates rise, but investors loaded with bank stocks should note the high concentration of bank-issued bonds in the portfolio. A more complex fund than others here in that it uses derivatives

HFR-T	391.3	0.45	10.19	1.8	70,048	Financials - 63% Industrials - 8% Cash - 8%	0.5	2.4	2.9	n/a
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iShares 1-5 Year Laddered Corporate Bond Index Fund

Hugely popular as a convenient alternative to building a ladder of individual corporate bonds maturing in one through five years. CLF is the ticker for a sister ETF that provides laddered exposure to government bonds

CBO-T	1,909	0.28	19.81	1.7	142,387	Banks - 65% Infrastructure - 23% Energy - 7%	2.7	3	3.7	n/a
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iShares DEX All Corporate Bond Index Fund

No bargain, but still a popular choice for investors who want to cover off investment-grade corporate bonds in a single ETF that mixes short- and longer-term holdings.

XCB-T	1,456	0.44	21.14	2.4	57,612	Financials - 47% Infrastructure - 14% Energy - 13%	5.6	3.1	5.3	7.5
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Ticker	Assets (\$-mil)	MER (%)	Recent Price (\$)	After-Fee yield to maturity	Avg daily trading vol./ past 30 days	Top Three Sector Weightings	Average Duration (Years)	% rtn (Dec. 30) 1-yr	% rtn (Nov 30) 3-yr	% rtn (Nov 30) 5-yr
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iShares DEX Hybrid Bond Index Fund

A way to tiptoe into high yield bonds, which offer more risk but fatter yields than better quality investment-grade bonds. Roughly 75 per cent of the portfolio is in BBB-rated corporate bonds, which is the the lower rung of investment grade

XHB-T	362.6	0.5	20.9	3.7	20,978	Communications - 22% Industrials - 18% Energy - 15%	5.8	4.2	6.7	n/a
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iShares DEX Real Return Bond Index Fund

This ETF makes the list over BMO's lower-fee counterpart (ZRR) because of its larger size. Real return bonds can be a handful - you own them to defend against inflation, but they can be nasty when interest rates rise

XRBT	405.5	0.39	22.83	2.5	21,574	Federal - 87% Provincial - 13%	15.4	-6.4	4.4	7.3
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iShares DEX Short Term Bond Index Fund

A go-to ETF for investors who want to stay in bonds, but are concerned about limiting the damage caused by rising rates.

XSB-T	2,279	0.28	28.66	1.3	84,724	Federal - 46% Financials - 26% Provincial - 13%	2.8	2.4	2.8	3.3
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iShares DEX Universe Bond Index ETF

Bigger by far than ZAG and VAB, but that's because it's the old timer in this crowd. Higher fees than these two competitors

XBB-T	1,509	0.33	30.57	2.2	67,957	Federal - 36% Provincial - 29% Financials - 15%	6.8	1.8	4.7	5.2
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iShares U.S. High Yield bond Index Fund (CAD-Hedged)

Consider along with ZHY as a complement to government and/or investment-grade corporate bonds, while remembering that there's no defence here if stocks crash or the economy stalls.

XHY-T	633.2	0.61	22.03	4.1	43,501	Cons. Staples - 16% Industrials - 13% Energy - 12%	3.9	6.4	7.8	7.5
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Ticker	Assets (\$-mil)	MER (%)	Recent Price (\$)	After-Fee yield to maturity	Avg daily trading vol./ past 30 days	Top Three Sector Weightings	Average Duration (Years)	% rtn 1-yr (Dec. 30)	% rtn 3-yr (Nov 30)	% rtn 5-yr (Nov 30)
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PowerShares Tactical Bond ETF

An actively managed ETF that holds other PowerShares bond funds.
Early results won't be a help in attracting investors

PTB-T	144.8	0.52	19.27	2.2	6,340	Gov't - 38%; Financials - 26%; Telecom - 9%	8.4	0.8	n/a	n/a
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PowerShares Ultra DLUX Long Term Government Bond Index ETF

Extra yield here, but take a look at the risk level as shown in the duration.
There's an iShares competitor, XLB, which is smaller and has a slightly higher fee

PGL-T	685.6	0.28	21.02	3.1	12,015	Gov't - 96.5%; Utilities - 3%	14.1	-0.8	n/a	n/a
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Purpose Total Return Bond Fund

The people behind this ETF believe they can manage their way to better returns as rates rise than you'll get from index-tracking bond funds. Time will tell for this brand new player

PBD-T	23.8	0.45*	20.54	3.9	2,922	iShrs US HiYld Bnd Indx Fd - 65% iShrs DEX All Corp. Bnd Indx Fd - 31% iShrs DEX All Gov't Bnd Indx Fd - 2%	4.6	n/a	n/a	n/a
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Vanguard Aggregate Bond Index ETF

Cheap fees, but a slightly higher duration than its competitors, ZAG and XBB.

VAB-T	71.7	0.22	24.69	2.2	12,404	Provincials - 36% Federal - 32% Corporate - 20%	7.1	1.6	n/a	n/a
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Vanguard Canadian Short-Term Corporate Bond Index ETF

A low-cost up and comer for investors seeking defensive exposure to corporate bonds.

VSC-T	205.3	0.17	25.09	1.8	20,797	Financials - 76% Industrials - 17% Gov't agencies - 3%	2.7	3.3	n/a	n/a
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