

PORTFOLIO STRATEGIES

How to Invest in Index ETFs

What are Index ETFs?

Exchange-Traded Funds (ETFs) are investment funds that trade on stock exchanges, just like individual stocks. They are designed to provide investors with a simple and cost-effective way to gain exposure to a wide range of assets—stocks, bonds, or even commodities. Among the most popular are **Index ETFs**, which aim to replicate the performance of a specific market index.

Index ETFs track the performance of a broad market benchmark, such as:

- **S&P/TSX Composite** (Canada)
- **S&P 500** (U.S.)
- **MSCI World Index** (developed markets)
- **MSCI ACWI** (developed + emerging markets)

Instead of trying to beat the market, these funds match it by holding all (or a representative sample) of the securities in the index, in similar weights.

Types of Index ETFs:

1. Canadian Equity ETFs

- Track Canadian stock indices and provide exposure to major companies like RBC, Shopify, and Enbridge.
- Example: XIC.

2. U.S. Equity ETFs

- Track the S&P 500 or total U.S. stock market.
- Example: Vanguard's VOO and iShares' IVV.

3. Global Equity ETFs

- **Developed Markets:** Includes countries such as the U.S., Canada, Japan, U.K., and Germany, represented by indices like MSCI World.
- **Emerging Markets:** Includes economies like China, India, and Brazil. These markets may be more volatile but often have higher growth potential. Benchmarked by MSCI Emerging Markets.
- **All Country World Index (ACWI):** Combines both developed and emerging markets. Examples: iShares XAW or XWD.

How Do ETFs Trade?

ETFs are bought and sold during regular market hours on major exchanges. You trade them using a ticker symbol (e.g., XIC or XWD), and prices fluctuate in real time based on market demand.

What are ETF sponsors?

ETF sponsors are companies that design and manage these products. Key sponsors include:

- Vanguard
- iShares (BlackRock)
- BMO
- Horizons
- Invesco

Each sponsor offers a wide selection of ETFs tailored to different investment goals.

What Do You Own?

When you invest in an **ETF**, you own a slice of a diversified portfolio. For instance, owning a unit of XIC means you indirectly own shares in 200+ Canadian companies. These are real securities held in trust, not just promises from a fund manager.

How to Invest in an Index ETF

1. **Open a Discount Brokerage Account:**
 - Choose a low- or no-fee provider like Questrade, Wealthsimple Trade, or a major bank.
2. **Fund Your Account:**
 - Transfer money from your bank account.
3. **Enter the Ticker Symbol:**
 - For example, type “XWD” for global equity.
4. **Calculate How Many Shares:**
 - If you want to invest \$10,000 in XWD at \$100/share: $10,000 \div 100 = 100$ shares.
5. **Check Trading Hours:**
 - Trade only during regular market hours (usually 9:30 a.m. to 4:00 p.m. ET).
6. **Place Your Order:**
 - Consider using a “limit order” and buy slightly fewer shares than calculated to account for price fluctuation or any small fees.

Why do Index ETFs Matter?

- **Low Cost:** MERs often range from 0.05% to 0.25%
- **Diversification:** One ETF can give access to hundreds or thousands of companies
- **Transparency:** Holdings are public
- **Tax Efficiency:** Typically more efficient than mutual funds
- **Simplicity:** No need to pick stocks

Example: A portfolio with 60% in XWD (global equity), 35% in ZAG (Canadian bonds), and 5% in ZMMK (cash equivalent) is a globally diversified, low-cost strategy aligned with the WealthyYOU philosophy.

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By combining low fees, diversification, and automation, you're investing with the discipline of a pension fund—efficiently and independently. That's the path to becoming a Wealthy YOU