GLOBE INVESTOR

These four ETFs can help investors focus on cash flow, safety and diversification amid uncertain times

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OPINION

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In uncertain markets, such as we are currently experiencing, income investors need to focus on three key points. They are:

- **Cash flow:** Never forget your main objective is income. The day-to-day price movements of the underlying securities are secondary. As long as they are able to generate the cash you require, don't get hung up on price gains or losses.
- **Safety:** Stay away from high-risk securities. They have no place in an income portfolio. The time to take calculated risks is when you are building your asset base, not when you are relying on it to help provide the income you need to maintain your lifestyle.
- **Diversification:** Ensure your portfolio is well balanced. Don't overload any one sector, no matter how promising it may look at the time.

Exchange-traded funds (ETFs) are a good way to meet these three goals. They enable you to spread your risk over a large portfolio of securities and many offer very attractive yields.

Here are some that are worth considering in the current environment.

BMO EQUAL WEIGHT UTILITIES INDEX ETF (ZUT-T)

This ETF has been designed to replicate the performance of the Solactive Equal Weight Canada Utilities Index net of expenses. The portfolio includes such securities as Northland Power Inc., Boralex Inc., TransAlta Corp., Hydro One Ltd., Canadian Utilities Ltd. and Emera Inc.

This is a sound portfolio of companies that derive much of their revenue from regulated contracts. Several of the stocks are in the green energy sector, which has been performing well this year. These include Innergex Renewable Energy Inc., TransAlta Renewables Inc., Algonquin Power and Utilities Corp. and Brookfield Renewable Partners LP.

The fund was up 9.2 per cent for the year, on a total return basis, as of the end of August. The 10-year average annual compound rate of return to that time was 8.4 per cent.

Monthly distributions this year have been running at a rate of 7 cents a unit (84 cents a year), to yield 3.9 per cent at Monday's closing price of $21.46. The management expense ratio is 0.61 per cent.

HARVEST BRAND LEADERS PLUS INCOME ETF (HBF-T)

This fund offers an equal-weight portfolio of 20 large companies selected from the world's top 100 brands. Holdings include household names such as Visa Inc., Nike Inc., Walt Disney Co., Apple Inc., Microsoft Corp. and PepsiCo Inc. None of these companies is going out of business, no matter how bad conditions get.

The fund was marginally in the black for 2020 as of the end of August. The five-year average annual compound rate of return to that point was 10.86 per cent.

Monthly distributions are 5.4 cents a unit (64.8 cents annually), for a yield of 7 per cent at the current price of $9.29. The management fee is 0.75 per cent.

> [Harvest Brand Leaders Plus Income ETF's] holdings include household names such as Visa Inc., Nike Inc., Walt Disney Co., Apple Inc., Microsoft Corp. and PepsiCo Inc. None of these companies is going out of business, no matter how bad conditions get.

CI FIRST ASSET TECH GIANTS COVERED CALL ETF (CAD HEDGED) (TXF-T)

Technology has been the driving force behind the surge in stock market prices since the March plunge. At this point, the sector may be overvalued, and we saw some profit-taking last week, which caused the price of this ETF to drop. But the tech giants remain strong and that's where this fund invests. Major holdings include Apple Inc., Amazon.com Inc., Facebook Inc., Alphabet Inc. and Microsoft Corp., along with up-and-coming stocks such as Zoom Video Communications Inc.

The managers use a covered call strategy to generate additional cash flow for investors, thus the attractive yield of 7.6 per cent. Distributions are paid quarterly and can vary considerably. The latest payment, in June, was just more than 48 cents a unit, but the March payment was only 33 cents. If you need steady cash flow, this may not be the right ETF for you.

Returns have been impressive. As of the end of August, the ETF was showing a year-to-date total return of 22.2 per cent. The five-year average annual return to that point was 19.9 per cent. The management fee is 0.65 per cent.

This fund is higher risk than the others mentioned in this article, but the cash flow is good and there is potential for above-average capital gains. The stock closed Monday at $18.84, up 2 per cent.

ISHARES CORE CANADIAN UNIVERSE BOND INDEX ETF (XBB-T)

This bond fund needs no introduction. It's been one of my core investment selections for almost 16 years. It's not a shoot-out-the-lights fund and never will be. Instead, it provides steady monthly cash flow and offers stability to your income portfolio, even in the toughest times.

As a reminder, this ETF tracks the broad Canadian bond market, including government and corporate issues.

As of Sept. 11, the fund was showing a year-to-date total return of 8.3 per cent, but that's an aberration caused by the steep drop in interest rates in March. A better performance determinant is the 10-year average annual compound rate of return of 4.1 per cent to the end of August.

Distributions are paid monthly and are currently running at a rate of 7.1 cents a unit (85.2 cents annually). There is no guarantee they will continue at that rate however; the managers review the payout every three months and adjust the distribution as necessary.

This is a very inexpensive fund to own – the management expense ratio is only 0.1 per cent. At Monday's closing price of $33.74, the current yield is 2.6 per cent.

These ETFs are quite different in nature, but they all provide good cash flow and are relatively low risk, except for TXF.