12 Real ETFs for a Strong Conservative Portfolio

Exchange-traded funds (ETFs) are set up to mirror the performance of a stock-market index or sub-index. They hold a more-or-less fixed selection of securities that represent the holdings that go into the calculation of the index or sub-index.

Since ETFs trade on stock exchanges, you can buy or sell at any time when the exchange is open. In contrast, you can only buy conventional mutual funds at the end of the day, at a price that reflects that fund's value at the close of trading. You can buy ETFs on margin, or sell them short.

ETFs offer a lot of advantages for investors....

The best ETFs offer well diversified, tax-efficient portfolios with exceptionally low management fees. And unlike many other innovations, including many mutual funds, ETFs don't load you up with high management fees, or tie you down with heavy redemption charges if you decide to take your money out. Instead, they give you a low-cost and more flexible and convenient alternative.

...but are not so great for brokers

Unlike mutual funds, ETFs do not provide a yearly string of trailer fees to brokers, so brokers don't have an incentive to recommend ETFs. They may also advise you to sell your ETFs to buy something else. The broker would profit on the sale of the ETF and on the purchase of its replacement. Needless to say, many but not all brokers resist the temptation to hand out self-serving advice purely to earn a commission.

But mutual funds are losing market share to ETFs at a steady pace, so brokers are increasingly looking for ways to profit from the rising demand for ETFs.

Hybrid mutual funds—ETFs that brokers love

Some mutual fund companies now offer "hybrid mutual funds". Instead of holding the individual stocks in their respective indexes like a regular ETF, these hybrid funds hold one or more low-fee ETFs offered by the same mutual fund companies—but have considerably higher MERs.

This hybrid strategy lets brokers and advisors offer their clients ETFs without losing out on their mutual fund trailer fees. In general these hybrid mutual funds pay brokers the same annual trailer fees as do regular mutual funds: typically 1% per year on front-load funds and 0.5% on deferred sales charge funds.

That cost is added to the MERs of the hybrid mutual funds—so instead of MERs as low as 0.10% for regular ETFs, hybrid fund MERs can be 1.05% or even higher. That's less than an average MER on mutual funds of 2.60%, but still well above what you'd pay if you bought a regular ETF on a stock exchange.

You still need to choose your ETFs carefully

ETFs have added to their advantages over the last few years. That's because ETFs have evolved, and competition has increased. Still, there are a lot of ETFs that have been created to tap into popular, but risky, themes and fads, so you need to be very selective with your ETF holdings.

Here are 12 real ETFs covering Canadian, U.S., global and commodities indexes that we rate as buys:

VANGUARD GROWTH ETF $82.56 (New York symbol VUG) aims to track the CRSP U.S. Large Cap Growth Index, a broadly diversified index that mainly consists of shares of large U.S. companies. The fund's MER is just 0.10%.

The $27.0-billion Vanguard Growth ETF's top holdings are Apple, IBM, Google, Coca-Cola, Philip Morris International, Oracle, Comcast Corp., Intel, Qualcomm and Home Depot.

Vanguard Growth ETF is a buy.

SPDR S&P 500 ETF $167.55 (New York symbol SPY) holds the stocks in the S&P 500 Index, which consists of 500 major U.S. stocks that are chosen based on their market cap, liquidity and industry group.

The index's highest-weighted stocks are Apple, ExxonMobil, Microsoft, Procter & Gamble, Johnson & Johnson, J.P. Morgan Chase, IBM, Chevron, General Electric, Pfizer, Berskshire Hathaway, Google and AT&T. The fund's expenses are just 0.10% of its assets.

If you want exposure to the S&P 500 Index, the SPDR S&P 500 ETF is a buy.

VANGUARD EMERGING MARKETS ETF $44.16 (New York symbol VWO) aims to track the FTSE Emerging Transitions Index, which is made up of common stocks of companies located in developing countries around the world. The fund has an MER of just 0.18%.

Vanguard Emerging Markets ETF's top holdings include Samsung Electronics (South Korea), China Mobile (China: wireless), Petroleo Brasileiro SA (Brazil: oil and gas), Taiwan Semiconductor (Taiwan: computer chips), Vale SA (Brazil: mining), Banco Bradesco (Brazil: banking), Gazprom (Russia: gas utility), China Construction Bank, Itau Unibanco Holding SA (Brazil: banking), Industrial & Commercial Bank of China and CNOOC Limited (China: oil and gas).

The $74.4-billion fund's breakdown by country is as follows: China (19.1%), Brazil (14.6%), Taiwan (11.8%), India (8.5%), South Africa (8.4%), Russia (6.3%), Mexico (5.6%), South Korea (5.0%), Malaysia (4.3%), Indonesia (3.3%), Thailand (3.2%), Turkey (2.3%), Chile (2.2%) and Poland (1.4%).

Vanguard Emerging Markets ETF is a buy for aggressive investors.

SPDR S&P CHINA ETF $73.14 (New York symbol GXC) is an ETF that aims to track the S&P China BMI Index, which is made up of all publicly traded Chinese stocks that are available to foreign investors. Right now, SPDR S&P China ETF holds 184 stocks.

The $1.0-billion fund's top holdings are China Construction Bank, 7.9%; China Mobile, 6.8%; Industrial & Commercial Bank, 6.2%; Tencent Holdings, 4.2%; Bank of China, 4.0%; CNOOC Ltd., 3.5%; PetroChina, 3.3%; Baidu, 3.0%; China Petroleum & Chemical, 2.3%; and China Life, 2.5%;

The ETF was launched on March 19, 2007. It has a 0.59% MER and yields 2.0%.

SPDR S&P China ETF is a buy for aggressive investors.

GUGGENHEIM CHINA SMALL CAP ETF $24.94 (New York symbol HAO) aims to track the AlphaShares China Small Cap Index, which is made up of all Chinese stocks that are legal for foreign investors and have market caps between $200 million and $1.5 billion.

The $257.1-millon fund's top holdings are Youku Tudou, 1.5%; BYD Co., 1.3%; Tsingtao Brewery Co., 1.2%; Semiconductor Manufacturing International, 1.2%; Sohu.com, 1.2%; Guangzhou

R&F Properties, 1.1%; Sino Biopharmaceutical, 1.2%; China Resources Gas Group, 1.1%, Air China, 1.1%; and China Everbright International, 1.1%.

The ETF was launched on January 30, 2008. It has an expense ratio of 0.70% and a 1.3% yield.

Guggenheim China Small Cap ETF is a buy for aggressive investors.

ISHARES CDN REIT SECTOR INDEX FUND $17.73 (Toronto symbol XRE) holds the 14 Canadian real estate investment trusts (REITs) in the S&P/TSX Capped REIT Index. The weight of each REIT is limited to 25% of the ETF's value. iShares CDN REIT's expenses are 0.60% of its assets. The fund yields 4.1%.

The ETF's largest holding is RioCan REIT at 20.3%, followed by H&R REIT (15.0%), Dundee REIT (8.3%), Canadian REIT (7.4%), Calloway REIT (7.0%), Cominar REIT (6.3%), Canadian Apartment REIT (6.0%), Boardwalk REIT (6.0%), Allied Properties REIT (5.3%), Artis REIT (4.7%), Chartwell REIT (4.6%), Granite REIT (4.4%), Northern Property REIT (2.4%) and Crombie REIT (1.9%).

iShares CDN REIT is a buy.

ISHARES S&P/TSX 60 INDEX FUND $18.48 (Toronto symbol XIU) is a good low-fee way to buy the top stocks on the TSX. The units are made up of stocks that represent the S&P/TSX 60 Index, which consists of the 60 largest, most heavily traded stocks on the exchange. Expenses are just 0.17% of assets.

The index mostly consists of high-quality companies. However, it must ensure that all sectors are represented, so it holds a few we wouldn't include.

The index's top holdings are Royal Bank, 8.0%; TD Bank, 6.8%; Bank of Nova Scotia, 6.2%; Suncor Energy, 4.4%; CN Railway, 4.0%; Bank of Montreal, 4.0%; Potash Corp., 3.4%; Enbridge, 3.4%; BCE, 3.3%; TransCanada Corp., 3.1%; Canadian Natural Resources, 2.9%; CIBC, 2.8%; Manulife Financial, 2.6%; Telus, 2.2%; Cenovus Energy, 2.1%; Valeant Pharmaceuticals, 2.1%; and Brookfield Asset Management, 2.0%.

iShares S&P/TSX 60 Index Fund is a buy.

ISHARES MSCI JAPAN INDEX FUND $12.29 (New York Exchange symbol EWJ) is an exchange traded fund that tries to match the return of the Morgan Stanley Capital International (MSCI) Japan index.

The ETF's top holdings include Toyota, 6.4%; Mitsubishi UFJ Financial, 3.2%; Honda Motor, 2.5%; Sumitomo Mitsui Financial, 2.2%; Softbank Corp., 2.0%; Mizuho Financial Group, 1.8%; Canon, 1.5%; Japan Tobacco, 1.5%; Takeda Pharmaceutical, 1.4%; Hitachi Ltd., 1.3%; and Nomura Holdings, 1.3%. Its expense ratio is 0.51%.

Japan's exports will rise as the value of the Japanese yen continues to fall. The Bank of Japan, under pressure from the country's new prime minister, Shinzo Abe, has pumped more money into Japan's sluggish economy.

The lower yen is a big plus for Japan's manufacturers because it makes the country's exports more attractive to foreign buyers. Prime Minister Abe has also introduced a $117-billion stimulus package to boost the domestic economy.

iShares MSCI Japan Index Fund is a buy.

ISHARES AUSTRALIA INDEX FUND $26.66 (New York symbol EWA) is an ETF that holds the 71 largest Australian stocks. Its MER is 0.50%.

The fund's top holdings include Commonwealth Bank of Australia, 11.0%; BHP Billiton, 10.4%; Westpac Banking Corp., 9.1%; Australia and New Zealand Banking Group, 7.7%; National Australia Bank, 7.2%; Woolworths, 4.0%; Wesfarmers, 4.0%; CSL Ltd., 2.9%; Rio Tinto, 2.3%; and Woodside Petroleum, 2.3%.

Australia benefits from its stable banking and political systems. It is also rich in natural resources, and it's close to key Asian markets with vast potential, including India and China.

iShares MSCI Australia Index Fund is a buy for aggressive investors.

ISHARES S&P/TSX GLOBAL GOLD INDEX FUND $11.69 (Toronto symbol XGD) aims to mirror the performance of the S&P/TSX Global Gold Index. This index is made up of 56 gold stocks from Canada and around the world. The fund's MER is 0.60%.

The fund's top 10 holdings are Goldcorp at 15.7%; Barrick Gold, 13.9%; Newmont Mining, 11.4%; Yamana Gold, 5.9%; Randgold Resources, 4.9%; AngloGold Ashanti (ADR), 4.9%; Kinross, 4.5%; Franco Nevada Corp., 4.3%; Eldorado Gold, 3.6%; Agnico-Eagle Mines, 3.6%; and Gold Fields (ADR), 3.2%.

iShares S&P/TSX Global Gold Index is a buy for aggressive investors who want to own a gold fund.

GLOBAL X SILVER MINERS ETF $13.32 (New York symbol SIL) tracks the Solactive Global Silver Miners Index.

This index includes 32 international companies that mine, refine or explore for silver. Germany-based Structured Solutions AG developed the Global X Silver Miners Index.

Canadian companies make up 46.6% of the fund's holdings, but it also includes companies based in the U.S. (11.0%) and Mexico (14.6%). The ETF's MER is 0.65%.

The fund's top holdings are Silver Wheaton at 12.7%; Fresnillo plc, 11.6%; Industrias Penoles, 10.2%; McEwen Mining, 5.6%; Hecla Mining, 5.3%; Pan American Silver, 5.2%; Hochschild Mining, 5.0%; Silver Standard Resources, 5.0%; Coeur d'Alene Mines, 5.0%; Tahoe Resources, 4.9%; Silvercorp Minerals, 4.4%; and First Majestic Silver, 4.3%.

Global X Silver Miners ETF is a buy for aggressive investors who want to hold a silver fund.

GLOBAL X COPPER MINERS ETF $10.57 (New York symbol COPX) tracks the Solactive Global Copper Miners Index, which includes between 20 and 40 international companies that mine, refine or explore for copper. Germany-based Structured Solutions AG created this index.

Canadian companies make up 43.3% of the fund's holdings. It also includes companies based in Australia (7.9%), Poland (6.5%), Peru (5.6%) and the U.S. (5.4%). The ETF's MER is 0.65%.

Global X Copper Miners ETF's top 10 holdings are First Quantum Minerals, 8.1%; Turquoise Hill Resources, 6.3%; Glencore International, 5.7%; Vendanta Resources, 5.4%; Cudeco Limited, 5.4%; Freeport Copper, 5.3%; Capstone Mining, 5.3%; Taseko Mines, 5.0%; Kazakhmys, 4.8%; and Jiangxi Copper Company, 4.8%.

Global X Copper Miners ETF is a buy for aggressive investors who want to hold a copper ETF.

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