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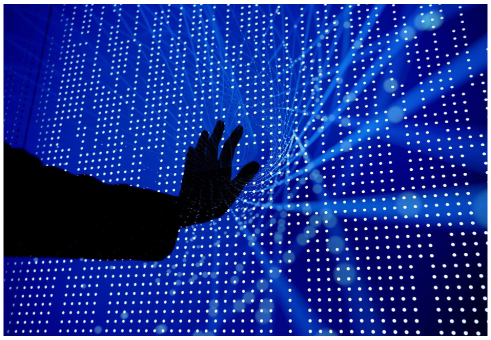
5 BEST TECH ETFS TO BUY IN 2024

These exchange-traded funds can help you profit from the rally in technology stocks.



By: Coryanne Hicks - December 1, 2023

It's been a bumpy ride for the technology sector in 2023. After a strong start to the year, the Nasdaq-100 Technology Sector Index struggled to maintain its gains between August and early November. It only just rose above its previous August high in mid-November.

Technology has been a resilient sector and will likely always be relevant given our current world, says Jason Werner, founder and accredited investment fiduciary at Werner Financial. "Also, tech companies have been known for their rapid growth structures, making them attractive for investors to add into their portfolios."

But not all tech companies succeed, and trying to cherry pick winners can be a loser's game.

For simplicity and the assurance that you won't miss out on all the fun, exchange-traded funds, or ETFs, allow you to hold many of the biggest names in Big Tech in a single ticker. With the capacity to hold dozens or even hundreds of tech stocks, ETFs can be a smart alternative to stock picking even in the best of times. But you still need to do your research to find the best tech ETF for your portfolio.

While technology will likely continue growing in our world, not all funds are guaranteed the same success, Werner says. "We encourage investors to do their due diligence and research specific funds, as well as their underlying holdings before moving forward."

If you're thinking the tech future is still bright, here are some leading tech ETFs to consider in 2024:

Invesco QQQ Trust (QQQ)

When looking for tech ETFs, "we always start with probably the most popular selection, which is the Invesco QQQ Trust ETF," Werner says.

Though not technically a tech ETF, this $222 billion five-star fund from Invesco is one of the five largest exchange-traded products in the U.S. and an incredibly liquid way to invest in the top technology stocks. It's not exclusively a sector fund, as it's benchmarked to the Nasdaq-100 index, which holds the biggest 100 firms on the Nasdaq exchange.

Since that index has always been tech heavy and excludes traditional U.S. stocks like JPMorgan Chase & Co. (JPM) and Johnson & Johnson (JNJ) that are on the New York Stock Exchange, the result is a fund that's biased toward tech. Specifically, nearly 60% of its assets are in the tech sector versus 28% for the S&P 500.

"QQQ has a strong track record and gives a diverse range of companies within the technology sector," Werner says.

Vanguard Information Technology ETF (VGT)

Perhaps the largest truly sector-specific technology ETF is VGT, with some $55.1 billion in assets. Just as QQQ has its quirks by including some stocks outside of Big Tech mainstays, VGT goes the other way with a massive prioritization of larger tech stocks.

Due to its market-weighting system, where bigger companies represent more of the portfolio, 60% of the fund's total assets are in the top 10 positions alone – with Apple Inc. (AAPL) and Microsoft Corp. (MSFT) at more than 40% between the two of them.

On the plus side, this leading technology ETF is cheap, charting just 0.1% annually in fees, or $10 on every $10,000 invested. But clearly you're not getting a lot of sophistication here.

That said, Morningstar's research team is bullish on this fund, giving it five out of five stars and a gold medal, indicating the researchers have the most conviction that VGT will outperform a relevant index or most peers over a market cycle.

"A sound investment process and strong management team underpin Vanguard Information Technology ETF's Morningstar Medalist Rating of Gold," writes the Morningstar research team. Morningstar also gives the fund an above average people rating thanks to the strength of Vanguard's equity team relative to peers.

Technology Select Sector SPDR ETF (XLK)

Another Morningstar five-star technology fund that also gets a silver badge is the Technology Select Sector SPDR ETF.

Launched in 1998, XLK tracks the Technology Select Sector Index, which is composed of technology companies within the S&P 500. It includes companies from many technology industries involved in tech hardware, software and IT services, among several others.

Like VGT, XLK tends to be top heavy. More than 47% of the fund is in Apple and Microsoft alone. The next largest holding, Broadcom Inc. (AVGO), accounts for only 4.6% of the portfolio. Which is to say if you opt for this fund, know you're basically just investing in Apple and Microsoft.

The good news is you'll only pay 0.1% in expenses with this fund and can feel confident in its liquidity with around 6.6 million shares trading hands each day on average.

iShares US Technology ETF (IYW)

IYW, another tech ETF Werner likes, also gets five stars and a silver badge from Morningstar. It tracks the Russell 1000 Technology RIC 22.5/45 Capped Index, which tracks large-cap U.S. technology companies classified by the ICB sector classification system.

The index also applies a capping system to avoid the top-heavy tendencies of other market-weighted indexes. No more than 22.5% of the portfolio can be held in any single company, and the sum of all the constituents that individually exceed 4.5% of the fund can't, in total, exceed 45% of the total portfolio.

As a result, Apple and Microsoft account for just over 36% of IYW. However, the fund is still heavily invested in its top 10 holdings, which account for 64% of total assets. It's also slightly more expensive than other names on this list with an expense ratio of 0.4%, but this will hardly break the bank. So if you're bullish on large U.S.-based tech companies, this one merits a look.

Invesco S&P 500 Equal Weight Technology ETF (RSPT)

To avoid the dominance of tech sector giants in your fund, you might consider an equal-weighted ETF like RSPT.

An equal-weight approach means the fund gives each holding a roughly equal weight, regardless of the company's size. Market-cap weighted indexes, like the S&P 500 and its derivatives, weight companies by size so the largest companies make up a larger portion of the portfolio than smaller companies.

If you look under the hood of RSPT, you'll see that even the largest holding, Gartner Inc. (IT), gets only 1.87% of the fund's total assets. The result of this equal-weight approach is a far more diversified portfolio with only about 18% of its total assets in the top 10 holdings.

So if you're looking for a truly diversified play on the tech sector with a reasonable expense ratio of only 0.4%, RSPT deserves a look.