Rail Stocks Helped Pull the S&P/TSX Composite Higher in the First Quarter

Description

The numbers are in and thanks to a big contribution from Canada's rail companies, **CN Rail** (TSX:CNR,NYSE:CNI) and **CP Rail** (TSX:CP,NYSE:CP), the S&P/TSX Composite was able register a gain of 3.2% in the first quarter of 2013. This move forward for the Index is impressive given the 2.5% drag that the heavyweight Materials sector caused during the quarter.

CN Rail moved ahead by 13% and contributed 42 basis points (1 bps = .01%) to the overall index. CP Rail gained 31.4% but because it carries a smaller weight in the Index due to its lower market cap, only contributed 39bps. Rail stocks are benefitting from a jammed North American pipeline system. Both CN and CP expect significant future growth from oil transport in the coming years and the shares are moving higher because of it.

Aside from CP and CN, the rest of the top five contributors during the first quarter were **Valeant Pharmaceuticals** (TSX:VRX,NYSE:VRX) which climbed 28.5%, **Canadian Natural Resources** (TSX:CNQ,NYSE:CNQ) up 13.7%, and **BCE Inc.** (TSX:BCE,NYSE:BCE) +11.3%. These three names pitched in 40bps, 36bps, and 31bps to the Index's total return respectively.

Valeant has been a market darling for some time as the company has made a string of growth oriented acquisitions that has the analyst community a flutter. The company's balance sheet however could mean the recent success is relatively short-lived.

CNQ has considerable natural gas assets that have held the shares back in recent years as the commodity slumped. Natural gas performed reasonably well however in the first quarter, creeping from the low $3 range to $4/mmBtu and this provided a tailwind for CNQ's stock. A more normal winter in much of North America was a likely contributor to the commodity's move higher.

BCE's stock rose as shareholders applauded the company's most recent dividend bump. The shares yield 4.9% but an analysis of future cash flows indicates BCE's dividend raising game may be on hold for some time.

Aside from CNQ, the top 5 first quarter contributors was void of the resource (energy/materials) and financial stocks that the S&P/TSX Composite Index is loaded with. Because of this sizeable allocation to just 3 sectors, investors that rely on Canadian Index funds and ETFs severely lack diversification in their portfolio, opening them to undue risks. "**Buy These 5 Companies Instead of Following a Flawed Piece of Advice**" is our special FREE report that outlines an easy to implement strategy and 5 Canadian stocks that reduce the risks involved with passively investing in the Canadian market. **Click here now** to receive the report – FREE!

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Fool contributor Iain Butler does not own shares in any of the companies mentioned at this time. David Gardner owns shares in Canadian National Railway.

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1. Investing

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2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:CP (Canadian Pacific Railway)

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