



Don't Buy Stocks. Buy Stock Exchanges

Description

Many investors are looking for the next big stock idea, but what if you could capitalize on the stock market exchange itself?

For example, **TMX Group Limited** ([TSX:X](#)) runs the Toronto Stock Exchange, making money in traditional ways such as stock listings and trading volumes as well as more nuanced ways like data aggregation and analytics. Let's take a look at why TMX Group might actually be your best option out there.

Dividends in good times and bad

TMX group has paid a healthy dividend every single quarter for over a decade. The company was not even forced to lower its payment throughout the financial crisis in 2008-09.

Back at its lows in 2009 investors were able to scoop up a sustainable 6.5% yield. At current levels, the dividend still yields a respectable 3.1%. While this certainly isn't as attractive, the lower yield is attributable to the share price doubling over the past five years.

With a proven ability to sustain these payments in times of trouble, TMX Group has a dividend you can rely on.

A safer haven

While the company does see volatility during times of turbulence, it's shown an ability to be much less volatile than the market overall. A big part of this stability stems from the firm's diversified revenue streams.

Not only does TMX Group make money when companies list with them, but they are also heavily involved in ancillary areas such as derivatives trading. Over the past 10 years the value of derivatives traded through their exchange has grown over 300%, while demonstrating less volume volatility than equities.

Strong cash flows

An asset-light business means that TMX Group can generate lots of cash. Over the past five years the company has averaged over \$250 million in annual free cash flow.

At current prices shares have a roughly 9% free cash flow yield. For comparison, U.S.-based **Intercontinental Exchange Inc.** has a meager 4.2% free cash flow yield. With little capital-expenditure needs moving forward, TMX Group should continue to have ample cash to reinvest in the business as well as return to shareholders.

Benefit from rising markets while maintaining downside protection

Because higher markets usually bring more listings, TMX Group should still be able to benefit from a continued bull market. With diversified revenue sources that have secular growth stories, the company can also mitigate some of the impact from a future bear market. And with a very reasonable valuation based on cash flows, TMX Group should be a possible addition to any portfolio.

CATEGORY

1. Investing

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1. Editor's Choice

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