Can Investors Easily Beat the TSX in Only 15 Minutes a Year?

Description

Beating the index is the holy grail of active investing. Why even try if that isn't the goal?

Passive investors think the exercise is at least unlikely, if not outright impossible. So they stick to ETFs, content in knowing they'll match the performance of the index minus a small management fee. These folks are then free to sit back, relax, and worry about more pressing issues.

But passive investors don't have to resign themselves to only market-matching returns. There are strategies that have a proven track record of outperformance with only a tiny bit of extra work compared to buying an index.

One such strategy is called the Dogs of the TSX. All an investor needs to do is blindly buy the 10 highest-yielding stocks in the TSX 60 index and hold for a year. If a stock is no longer one of the top yielding after the cut off, it's sold and replaced. It's that simple.

Over the years, the strategy has done remarkably well. From 1987 to 2011, a Dogs of the TSX portfolio returned 11.97% per year, compared to 9.34% from the TSX Composite Index. It outperformed in 18 of those 25 years, trailing the market six times and tying once.

More recently, the strategy has struggled. The Dogs lost a combined 10% in 2014, while the TSX zoomed to a 13% gain. The 2015 data is harder to find, but it's very possible the strategy underperformed the index last year as well, since the strategy would have bought many energy stocks, featuring payouts that were either cut or eliminated in 2015.

Still, there are plenty of reasons why investors should like the strategy. It automatically comes with a value focus, and value stocks have been proven to outperform the market over time. The portfolio would still be filled with some of Canada's finest stocks. And the American version of the strategy did quite well after having a couple of poor years back in the late 1990s. Perhaps the Canadian version of the portfolio is primed for outsized returns as well.

The Dogs list

Here is a list of the TSX Dogs, sorted by the dividend yield:

Company	Dividend Yield
Potash Corp.	5.97%
Inter Pipeline	5.88%
Pembina Pipelines	5.10%
National Bank of Canada	5.09%
Shaw Communications	4.82%
CIBC	4.65%
Power Corp.	4.61%
Bank of Nova Scotia	4.56%
BCE	4.55%
Telus	4.53%

Upon first glance, there are a few very major issues with the list. The top choice, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) has already cut its dividend once in the past year, slicing the payout from US$0.38 per share each quarter to US$0.25. Many pundits think another dividend cut may be in the cards as the company embraces a less bullish environment for its main product.

In the company's most recent quarter, it earned US$75 million. That's compared to US$370 million in the comparable quarter a year ago. With that kind of earnings collapse, it's little wonder why people are expecting Potash to cut its dividend again.

The current Dogs of the TSX list also has a big telecom and banking concentration. In fact, with the exception of Potash, each of the remaining companies are either in financial services, telecom, or pipelines. That's not the basis of a very diverse portfolio.

But at the same time, most of these stocks have a history of massive outperformance. **Inter Pipeline Ltd.** (TSX:IPL) didn't even debut on the TSX until 2002, going public as an income trust. From late 2003 to today, including reinvested dividends, shares of the pipeline operator surged ahead 19.39% per year. A $10,000 investment back then would be worth nearly $94,000 today. Those are spectacular returns.

The whole point of the Dogs of the TSX strategy is supposed to be passive. Although the strategy hasn't done well lately, I'm a believer it can work over the long term–provided that investors don't try too hard to tweak or over manage it. The beauty of the system is the simplicity of it. Yes, it'll be volatile, but for investors who can sit through the ups and the downs, I think the end result will be worth it.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Metals and Mining Stocks

POST TAG

1. Editor's Choice

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/08/03
Date Created
2016/05/25
Author
nelsonpsmith