



S&P/TSX Composite versus S&P/TSX 60: Is it Time to Ride the Bigger Index?

Description

Should your investments be focused or diversified? Big or small? These are some of the questions facing investors as they ponder which S&P/TSX index to use to passively track Canada's stock market.

One has 248 stocks; the other has 60. One is meant to cover the entire Canadian stock market; the other invests in 60 of Canada's largest companies. Both are passive investments that will help you reach your retirement goals.

And both will let you down at times.

So, which ETF should you buy?

Should you buy the **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#)) or the **iShares S&P/TSX Capped Composite Index Fund** ([TSX:XIC](#))? Both aren't going to break the bank when it comes to fees—0.06% for XIC and 0.18% for XIU—so you can rest easy knowing your hard-earned savings aren't being frittered away by cushy salaries for active managers.

A look back at the annual total return of both ETFs since 2006 shows an interesting pattern.

Index performance: 2006 through November 15, 2016

| Year | S&P/TSX 60 (XIU) | S&P/TSX Composite (XIC) |
|------|------------------|-------------------------|
| 2006 | 19.12% | 17.09% |
| 2007 | 10.84% | 9.56% |
| 2008 | -31.09% | -33.34% |
| 2009 | 31.31% | 34.55% |
| 2010 | 13.84% | 17.42% |
| 2011 | -9.31% | -8.79% |
| 2012 | 7.92% | 7.01% |
| 2013 | 13.07% | 12.46% |
| 2014 | 11.94% | 10.95% |
| 2015 | -7.81% | -8.62% |

2016 **16.61%** 16.27%

Source: Morningstar

The S&P/TSX 60 did better than the S&P/TSX Composite between 2006 and 2008. Then their roles reversed with the S&P/TSX Composite outperforming its smaller sibling between 2009 and 2011.

Now, with the S&P/TSX 60 up 34 basis points year-to-date on the S&P/TSX Composite Index with six weeks left in the year, the ETF based on the smaller group of stocks appears to be heading to a fifth consecutive year bettering its big brother.

But we should look at how the two ETFs have performed over the long haul. With the S&P/TSX 60 handily beating the S&P/TSX Composite in what could be eight out of 11 years, the S&P/TSX 60 should be the better performer.

Drumroll, please.

The cumulative total return of the S&P/TSX Composite Index from December 30, 2005, to November 15, 2016, is 31.9%. The cumulative return of the S&P/TSX 60 over the same period ... 37.9%—600 basis points higher. Case closed.

Not so fast.

Yes, in absolute terms, the S&P/TSX 60 has outperformed the S&P/TSX Composite Index, but consider the pattern that sits before us.

Should the S&P/TSX Composite Index pass the S&P/TSX 60 in the remaining weeks of the year to take back the performance title—don't forget about regression to the mean—it could be year one in a four-year streak to match the S&P/TSX 60's run from 2012. If the S&P/TSX Composite Index doesn't squeak out a victory, I believe it could be the start of a five-year run.

Best-case scenario and I'm right, you'll get better returns on your passive investment while paying lower fees; worst-case scenario, the S&P/TSX Composite Index trails the S&P/TSX 60 by several hundred basis points over the course of four or five years. That works out to \$234 on a \$10,000 bet.

But, if the S&P/TSX Composite Index comes through as I think it will, you'll gain far more than \$234 dollars.

It's your call.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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