



3 TSX Stocks to Own That Make Money From Buybacks

Description

Bob Tattersall, one of Canada's [best](#) portfolio managers in his day, recently contributed an article to the *Globe and Mail* that recommends that one of the dozen or so ETF providers in this country create a new ETF that tracks the performance of the S&P/TSX Composite Buyback Index.

Not familiar with the index? It's a subset of the S&P/TSX Composite's 251 constituents.

It selects the 50 companies with the highest buyback ratio over the last 12 months, which is defined as the dollar amount paid for shares repurchased over the previous four calendar quarters divided by the market cap at the beginning of the buyback period. Each stock is given an equal weighting of 2% and rebalanced on the third Friday in January, April, July, and October.

As Tattersall suggests, this would be an easy ETF to create, because it involves an entirely passive investment strategy that's outperformed the composite by 3-5% annually over the past five- and 10-year periods.

"Clearly, what Canadian investors need is an ETF or index fund which replicates the buyback index (or a similar strategy) with only a modest management fee to reflect the fact that it involves no active analysis by the fund manager," Tattersall wrote January 15. "I have not yet tracked down an existing product, but now that the opportunity has been identified, I am sure that an enterprising ETF sponsor will introduce one shortly!"

There is an existing option

CI Financial's First Asset ETF division does have a Canadian buyback ETF, but it tracks the CIBC Canadian Buyback Index, which selects its constituents from the entire TSX and not just the composite. Also, it looks at the past 24 months, picking the 40 highest-ranked stocks based on how much a company has reduced its share count over the two years and the consistency of buying back its stock on a monthly basis over the same period.

Like the S&P/TSX Composite Buyback Index, the CIBC Canadian Buyback Index is equally weighted and rebalanced quarterly. So, there does exist an option should you wish to get on the buyback train.

In November 2016, I'd [recommended](#) that investors buy the **First Asset U.S. Buyback Index ETF** (TSX:FBU) over the **First Asset Canadian Buyback Index ETF** (TSX:FBE), because it owned U.S. stocks as opposed to Canadian stocks. The FBU is up 28% since, 830 basis points higher than the FBE.

Today, knowing how far U.S. stocks have come, it's not quite as easy a decision as it was in 2016, that's for sure.

Getting back to the S&P/TSX Composite Buyback Index

At the end of December, these 10 companies were the highest-weighted stocks in the index.

Company	Sector
Gran Tierra Energy Inc. (TSX:GTE)	Energy
Bombardier, Inc. (TSX:BBD.B)	Industrials
Home Capital Group Inc. (TSX:HCG)	Financials
Methanex Corporation (TSX:MX)(NYSE:MEOH)	Materials
BRP Inc. (TSX:DOO)	Consumer Discretionary
Kirkland Lake Gold Ltd. (TSX:KL)(NYSE:KL)	Materials
Dollarama Inc. (TSX:DOL)	Consumer Discretionary
Suncor Energy Inc. (TSX:SU)(NYSE:SU)	Energy
Westshore Terminals Investment Corp. (TSX:WTE)	Industrials

Canadian Pacific Railway Limited ([TSX:CP](#))([NYSE:CP](#)) Industrials
)

Which of these 10 stocks would I recommend?

The two natural choices for me would be BRP and Dollarama, which are both benefiting from the current economy, but for different reasons.

Dollarama has gotten a significant return on its [buybacks](#), and while expensive, its stock is one of a handful of Canadian retailers worth owning. As for BRP, its business is [running](#) on all cylinders at the moment. Add to this the additional spending to be created by the Trump tax cuts, and you have a stock that's likely to be higher in the next 12 months.

As for my final pick, I'm going to go with Suncor, because energy prices appear to be slowly moving higher, and that's great news for Canadian energy producers.

Buybacks done well

The buyback ratio only tells me a company is buying back a lot of its stock. It doesn't tell me how much money it's wasting in the process — a critical consideration for thrifty investors.

If you're going to buy stocks doing a lot of buybacks, I'd first make sure it's money well spent before pulling the trigger.

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1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:MEOH (Methanex Corporation)
2. NYSE:CP (Canadian Pacific Railway)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:BBD.B (Bombardier)
5. TSX:CP (Canadian Pacific Railway)
6. TSX:DOL (Dollarama Inc.)
7. TSX:DOO (BRP Inc.)
8. TSX:GTE (Gran Tierra Energy Inc.)
9. TSX:HCG (Home Capital Group)
10. TSX:MX (Methanex Corporation)
11. TSX:SU (Suncor Energy Inc.)
12. TSX:WTE (Westshore Terminals Investment Corporation)

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