Would a Better Mix of Stocks Fix the TSX?

Description

The TSX surged last week, buoyed by pot stocks and the energy sector. But is the lift sustainable? Some analysts are saying yes, though the overall consensus seems to be that the TSX index is underperforming on the world stage.

Let’s take a look at some uncomfortable truths. Sectors that are booming in other markets are anemic at best on the TSX index, while some sectors that should be doing better here are suffering from market uncertainties, such as challenges to the real estate business and alarming tariffs.

Is the TSX underperforming? Let’s discuss.

The TSX has a lack of consumer discretionary stocks

Consumer discretionary (non-essential goods that are nice to have if you possess the spare cash) and technology are two types of stocks that are significantly underrepresented on the TSX. Sure, you’ll find the odd outstanding tech stock here, a breakout retail or pharma stock there. But the homegrown tech and non-essential consumer sectors don’t offer many options for investors in the Canadian stock market.

Meanwhile, the NASDAQ and NYSE have plenty. You know the ones. **Apple Inc.** (NASDAQ:AAPL), **The Walt Disney Company** (NYSE:DIS), **Nike, Inc.** (NYSE:NKE), **Starbucks Corp.** (NASDAQ:SBUX) — the list goes on. Where are the Canadian equivalents of these U.S. consumer discretionary stocks? There aren’t any that come anywhere near the same level, and that’s part of why the TSX needs fixing. There’s a lack of diversification.

And no, **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) does not qualify on its own as a tech sector. It’s a very nice stock, but it might be even nicer if it had some big competitors to keep it company — something along the lines of **Amazon.com, Inc.** (NASDAQ:AMZN), **Alphabet Inc.** (NASDAQ:GOOG)(NASDAQ:GOOGL), or **Microsoft Corp.** (NASDAQ:MSFT). These are the sort of stocks that Canadian investors are missing out on.

How to fix the TSX

An overreliance on banks, energy, and high-value materials is possibly one of the main causes for the TSX index not being what it could be. Issues arising from crude oil prices and a saturated financials market could see an overall market correction, leading to a more diversified TSX. But with few options for investors to turn to, it's possible that the correction might not be positive.

For instance, there are a fair few “frankenstocks” on the market, such as ETFs, pieced together by various financial institutions. Removing them might simply create a void, with nothing in particular to fill it with. And it can't be denied that they're popular passive-income stocks.

Tax breaks and subsidies may also be encouraging companies to stay small, meaning that newer industry players don't grow to be the size at which they can go public. By ending these rewards, those companies might go on to raise IPOs and trade on the TSX — though entities that rely on these incentives might have something to say about that.

The bottom line

While there are certainly some ways to fix the TSX, the necessary measures might do more harm than good to the Canadian economy. Weakening the reach of banking institutions in order to increase diversity on the TSX is a potentially bad idea, while the movement to entice U.S. broker-dealers to the TSX index still needs more momentum. Perhaps the best way to boost the TSX might be a top-down increase of support for Canadian companies trading publicly.

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6. NASDAQ:SBUX (Starbucks Corporation)
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