What If You've Invested in the S&P/TSX Composite Index?

Description

The **S&P/TSX Composite Index** (TSX:^OSTPX), or TSX index for short, covers about 95% of the Canadian equities market. So, the TSX index serves as a gauge for the Canadian stock market. If you are bullish on the Canadian market as a whole, this is the index to consider.

On second thought, is it really necessary to buy almost the entire Canadian market?

What's inside the TSX index?

Here's a sector breakdown of the TSX index. It's about 35% in financials, 20% in energy, 11% in materials, 10% in industrials, 6% in consumer discretionary, 4.5% in telecommunication services, 3.5% in consumer staples, 3.5% in utilities, 3.4% in information technology, and 1% in health care.

That doesn't seem very balanced, does it? Well, financials is a key sector in Canada. In fact, half of the top 10 holdings in the TSX index are the largest Canadian banks: **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Bank of Nova Scotia**, **Bank of Montreal**, and **Canadian Imperial Bank of Commerce**. But is it really necessary to own all of the Big Five banks?

The other top holdings include **Suncor Energy Inc.**, **Canadian National Railway**, **Enbridge Inc.**, **TransCanada Corp.**, and **Canadian Natural Resources Ltd.**

Invest in other areas, too

If investors own the TSX index for the sake of diversification, they should consider investing in the areas that the index lacks — namely, consumer staples, utilities, information technology, and health care.

Consumer staples and utility stocks should offer stability. Additionally, utilities tend to be nice income vehicles. Information technology and health care sectors should offer superior growth potential.

Alimentation Couche-Tard Inc. (TSX:ATD.B) is a consumer staples stock that has delivered incredible returns in the long run. The stock has been a laggard in the last few years because it was trading at a relatively high multiple than usual. As a result, the stock has pretty much been consolidating since the summer of 2015.

Couche-Tard's successful track record of acquisitions and integrations should boost investors' confidence in the long-term potential of the stock, as the convenience store industry is still fragmented.

As Couche-Tard grows its number of stores, it benefits from economies of scale. The company has been converting most of its stores to its international brand, Circle K, which will allow it to reduce advertising costs.

Despite the recent pop, Couche-Tard stock is still a decent value at $60.50 per share as of writing, as that implies a blended price-to-earnings multiple of about 17, while its earnings per share are estimated to grow about 15% per year for the next three to five years.

If the stock drops to $55 per share or lower, it'll be an even better buying opportunity.

Investor takeaway

If you're invested in the TSX index, consider investing in consumer staples, utility, information technology, and health care sectors, which the index lacks and are good areas of stability or growth.

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