Is Mirroring the Market an Outdated Strategy?

Description

I'm sure I'm not alone when I say this, but investing on the TSX has been incredibly frustrating lately. Whether you've been buying pot stocks or even blue-chip stocks, it's been a bit of a roller coaster either way. Since the start of 2017, the TSX is up just 3%, and the way things are going now, that number could get even smaller before 2018 is over.

Why trying to mirror the market is a mistake for many investors

While the temptation might be to just pull your money out of the TSX entirely, there are still some good options on the market today. The TSX's poor returns reinforce that simply trying to mirror the market is not a guaranteed way to earn much more than mediocre returns.

You might hear lots of investors say that on average the S&P or some other index has averaged a return of 5% per year or some other figure. The problem is, oftentimes those numbers are averaged over decades, and there will be many bad years weighing down a lot of the good ones.

So, unless your plan is to hold a portfolio that mirrors the market for decades, then you could very well be disappointed with the results. Even if you're not sure if you plan to hold on to the investment for 10 years, then you might be better off looking at a more focused strategy rather than investing in a broad fund.

What can investors do instead?

There are many low-risk options out there for investors that can provide safety while also having good odds of outperforming the market. I always go back to a stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which may seem like its returns should be similar to the market because it's a bank stock and isn't going to grow particularly well, but that hasn't been the case.

Over the past five years, TD's stock has risen by 75%, which is well in excess of the 25% that the TSX has increased by during that time. You might assume that going back a longer stretch that the results would be more similar, but you'd be wrong again. While the TSX has grown by more than 60% since 2008, TD's stock has risen over 170% during the same period.

TD is an easy example because it is one of the top banks in the country, so its stability is indisputable and its growth in the U.S. has helped keep its stock price going.

Bottom line

There are many investing strategies out there, but investors need to adapt to what's true today, rather than what was true decades ago. While simply buying the market portfolio and trying to mirror it may have worked in the past, I'm not convinced it's a model that is still relevant today.

Globalization has changed a lot of how the world works and accelerated innovation, and a top-performing company in an industry today may not be there a few years from now.

Skeptics will say that we've seen change before and that this is nothing new, but the rate at which it is occurring suggests that a simple buy-and-hold strategy, particularly for the long term, just may not be safe or optimal anymore.

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