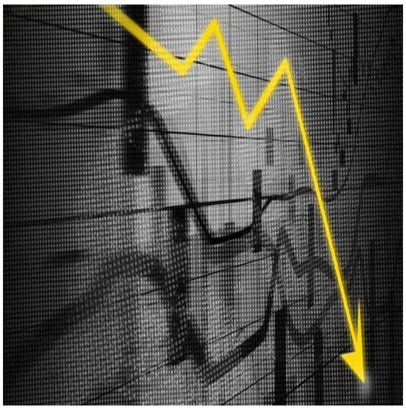

Why TSX Stocks Are Doing So Badly in 2018

Description

2018 hasn't been the best year for the S&P/TSX Composite Index. After adding some gains early in the year, stocks started falling in October and have been trending downward ever since. Although the market carnage we're witnessing now may not last until the end of the year, it's already been going on long enough that some are calling it a bear market. In fact, as of Tuesday, the index's gains were negative for the year.

But why exactly is the TSX doing so badly right now? And what should investors do to protect themselves? To answer these questions, we need to take a look at a little economic history.

An unusually long bull run

For North American markets, the average bull market lasts nine years. The bull run that had preceded this had been going on for nine and a half, making it above average. So, history would predict a correction at this point in time — and it looks like history is right. This alone may explain what we're seeing. However, there are some specific causes for this sell-off that are worth exploring in more detail.

Cannabis carnage

One sector driving the TSX lower at the moment is cannabis. Cannabis stocks like **Canopy Growth** (TSX:WEED)(NYSE:CGC) have been leading the TSX downward in the late fall season, thanks to growing losses and post-legalization headaches. This sector has been doing much worse than the TSX average, and because it has come to make up a large percentage of the total TSX value, it's dragging the index down with it.

Spillover effects from U.S. markets

Of course, cannabis stocks don't entirely explain the TSX sell-off we've been witnessing. Most sectors having been hit, and the cannabis carnage can't explain that. What may explain it is spillover effects from U.S. market doldrums. The Dow and NASDAQ have been hit hard in recent months, and when the U.S. markets slide, Canadian markets tend to follow suit. This can be explained by the fact that many of the same companies are cross listed on the TSX, NYSE, and NASDAQ, and the fact that the Canadian and American economies are deeply connected.

Interest rate concerns

Finally, there's the matter of interest rates. The Bank of Canada has been on an interest rate-raising spree lately, and it shows no signs of slowing down. From May 2017 to today, the policy interest rate has risen sharply from $0.50 to $1.75 — and some think that further rate hikes are coming. Rising interest rates tend to correlate with falling stock prices, because higher interest discourages people from taking out loans, which in turn discourages consumer spending. This can translate into lower sales at publicly traded companies — particularly those that sell primarily to the consumer market.

So, in sum, almost all applicable factors are pushing the TSX in the direction of a bear market. This would tend to indicate that the worst is yet to come. But if you're an investor worried about what's happening, don't fret. By adopting a contrarian investment policy consisting of defensive plays like **Fortis**, you may well make it through this carnage alive. And if you're still holding cannabis stocks at this point, it might be time to cut your losses.

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