



The 3 Top TSX Index Stocks to Own

Description

Here are [three top stocks](#) that we've selected carefully from the TSX index. These stocks have outperformed, and we believe that they will continue to outperform their peers and the U.S. stock market in total returns in the long haul. The U.S. market tends to outperform the Canadian stock market. So, we decided to use the U.S. market as a proxy.

Pembina Pipeline ([TSX:PPL](#))([NYSE:PBA](#))

Since 2007, before the last recession and market meltdown occurred, Pembina has delivered total returns of about 13% per year. In the period, the U.S. stock market delivered total returns of about 7.4% per year. Additionally, Pembina generated more than 350% in dividend income than the U.S. stock market in that period.

Studies show that there's a high rate (at least 70%) of failure for acquisitions and integrations. That's why Pembina should be applauded for its successful acquisition and integration of Veresen. The transaction closed in late 2017 and turned out to be very accretive for shareholders.

One thing that's particularly attractive about Pembina over the other two top TSX index stocks is its juicy dividend. As of writing, at under \$50 per share, Pembina stock offers a yield of nearly 4.6%.

Pembina has paid dividends since 1997, maintaining or increasing its dividend per share every year since at least 2002. Its five-year dividend growth rate is 6.4%.

About 87% of Pembina's cash flow is contracted, which makes its cash flow generation stable to support its monthly dividend. The dividend is further secured by a sustainable payout ratio, which was about 75% of fee-based distributable cash flow in 2018, while the standard payout ratio was about 53%.



Alimentation Couche-Tard (TSX:ATD.B)

Since 2007, before the last recession and market meltdown occurred, Couche-Tard has delivered total returns of about 20% per year. In the period, the U.S. stock market delivered total returns of about 7.4% per year.

Couche-Tard has been an incredible growth story. Over the decades, it has been an excellent capital allocator: acquiring convenience stores (often attached to road transportation fuel retail), integrating them, paying down debt to maintain a solid balance sheet, rinse and repeat.

Since 2009, Couche-Tard has generated returns on equity (ROE) of about 20% — a key indicator of excellent capital allocation. Its five-year ROE is 23.5%, which is solidly above 20%.

The growth stock has run up significantly after a multi-year consolidation. Since mid-2018, the stock has appreciated more than 50%. You'll notice that it solidly broke out from the consolidation in late 2018.

At a price-to-earnings ratio of about 18, the stock is pretty fully valued. So, it's in investors' best interests to pick up the stock after a meaningful dip of 10-15% or after a period of consolidation.

Brookfield Asset Management (TSX:BAM.A)([NYSE:BAM](#))

Brookfield Asset Management or BAM is a truly unique offering that's impossible to replicate for retail investors like you and me. In fact, its offerings are so valuable that they even attract big money from institutional investors.

Specifically, BAM is one of the best global alternative asset managers out there. It is a value investor that can source the best risk-adjusted opportunities around the globe at any time. It has a focus on real estate, renewable power, infrastructure, and private equity assets, which largely generates sustainably growing cash flow.

Investors just have to focus on buying BAM stock on corrections because it is quite sensitive to market downturns. From its 2007 high to its 2009 low, its value was slashed by about 60%!

Still, since 2007, before the last recession and market meltdown occurred, BAM stock managed to deliver total returns of about 9.5% per year that outperformed the U.S. stock market return of about 7.4% per year.

Investor takeaway

Cautious investors should buy shares of Couche-Tard, Pembina Pipeline, and Brookfield Asset Management after periods of consolidation or meaningful dips for outperforming long-term returns.

However, if you have a long-term investment horizon of at least five years, it might make sense to buy starter positions and average into these [top TSX index stocks on dips](#).

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1. NYSE:BN (Brookfield Corporation)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:BN (Brookfield)
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