Why Canadians Should Own Stocks Instead of Cash in 2019

Description

Should you save, or should you invest?

For many people, it’s a tough decision. Although stocks definitely outperform bank interest over time, there’s a certain sense of security that comes with holding cash. Deposits may not keep pace with inflation, but if you keep adding to your pile, you know you’re going to be worth more next year than this year. With stocks, although there’s always that possibility of getting rich, you can find yourself down for prolonged periods.

After the late 20s/early 30s Wall Street crash, it took stocks many years to hit their peak summer 1929 value. If you’d invested in the Dow Jones Industrial Average, it would have taken you until 1954 to recover.

The lesson?

If you’re going to invest in stocks, it pays to prepare for a bumpy road.

A good time to invest

With all that said, if you’re a Canadian investor, you’re almost certainly better off in stocks than in cash now. Not only are we in the middle of a bull market, but many stocks are still cheap thanks to the preceding five years of sluggish gains. In many industries, there are still great stocks to be found at low prices and with high dividend yields.

Financials are currently trading at extraordinarily low P/E ratios, while growth stocks in sectors like tech and clothing are growing earnings by as much as 60% year over year. Whether you seek the safety of a stock like **Toronto-Dominion Bank** or the potential gains of a **Shopify**, there are plenty of options out there that are better than sitting on cash.

Inflation

Not only are stocks doing comparatively well right now, cash is in many ways an exceptionally poor holding. Inflation isn't exactly sky high at the moment, but it's definitely there, hovering around 1.69% so far this year. Even in this rising interest rate environment, bank deposits still pay next to nothing, so when you hoard cash, you're effectively losing money year after year.

A strengthening energy sector

Early 2019 has been a good time for all North American indices and markets. However, it's an exceptionally promising time for Canadian markets. Why? Because the price of oil is on the rise. The TSX is disproportionately weighted in energy stocks, which underperformed from 2014 to 2019 thanks to low oil prices. As a result, the TSX index hardly even budged or possibly lost value when inflation is factored in.

Now, however, there's a more optimistic feeling in the air toward oil and gas. Not only is the price of Canadian Crude on the rise, but there's reason to believe it will keep rising, as demand for energy is growing in key Asian markets like China.

This is an extremely fortuitous situation for energy stocks like **Suncor Energy** (TSX:SU)(NYSE:SU). Companies directly involved in the extraction, processing, and selling of petroleum products benefit when the price of oil is high, as it allows them to earn higher profit margins. Not only that, but when rising prices are caused by increased demand and complemented by improved infrastructure, there's potential for higher sales volume as well. So now, energy stocks like Suncor, which previously lagged the broader TSX, may be excellent investments. Their prosperity will also have spillover benefits for other industries, as we saw in Alberta during the 2000s.

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