Why Buy Stocks When You Can Buy an Entire Stock Exchange?

Description

Investors are always trying to find the next big thing. Discovering bargain stocks can be a difficult game to play, however.

Instead of buying individual stocks, why not buy an entire stock exchange? No, I'm not talking about an ETF or index fund, but literally buying an interest in the Toronto Stock Exchange.

That's what you get by purchasing **TMX Group** (TSX:X) shares.

Exchanges beat stocks

Who knew that buying a stock exchange could be more profitable than buying the stocks that trade on the exchange? That's been the case with TMX Group, which owns the Toronto Stock Exchange, the ninth-largest exchange in the world by market value.

Since 2006, TMX stock has grown in value by more than 90%. The **S&P/TSX Composite Index**, for comparison, has only increased by roughly 40%.

Owning TMX stock has not only resulted in outperformance but also a growing dividend stream. The company has been paying a steady dividend since 2003 without ever cutting the payment. Even after a strong run-up, the yield remains nearly 3%.

It's all about data

They say if you want to make money, be close to the money. Wall Street banks have made this saying work in their favour for decades.

In the 21st century, however, perhaps the saying should be revised. If you want to make money these days, be close to the *data*.

Because it operates the exchange itself, no one has more comprehensive or faster data than TMX.

Previously, the company has made money every time a stock is listed and traded on its exchange. These days, it has diversified profits by focusing on emerging opportunities like data analytics, energy commodities, derivatives, and fixed-income securities.

Data analytics is perhaps the most exciting item on that list.

The value of data is so high that TMX has been acquiring companies to boost its capabilities. Recently, it purchased VisoTech for its algorithmic capabilities that can help clients build and execute complex trading strategies using massive amounts of data.

"The acquisition … immediately strengthens our offering with new solutions for short-term energy trading across power and gas, enhancing our customers' ability to respond to heightened volatility in these markets." CEO Lou Eccleston said on the company's latest conference call.

Most importantly, he added, the acquisition will "expand TMX's global footprint and adds talent and data mining and analytics for the team."

All at a reasonable price

Today, TMX stock trades at just 18 times trailing earnings — that's a discount to the overall market. The stock isn't a screaming buy, but it's hard to justify its current discount.

In total, the business today should be considered a true tech stock with a premium valuation. It runs an asset-light business with strong cash flows, above-average profit margins, and a dominant domestic market share.

As the stock exchange market continues to consolidate, don't be surprised if TMX catches a take-out bid from larger rivals like **Nasdaq** or **Intercontinental Exchange**.

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