TSX Investors Keep Making This Costly Mistake

Description

TSX investors keep making a big mistake. This mistake has caused them to underperform global markets while preventing them from accessing the fastest-growing sectors of the economy. In total, *billions* of dollars have been left on the table. Many investors have self-corrected, but the vast majority have not. Odds are that *you* are making this mistake.

If you want to make sure your portfolio can grow as quickly as possible, pay close attention.

You're automatically big

Take a look at your investments. You'll probably find a major theme: you're heavily invested in gigantic companies. Whether you're invested in mutual funds or individual stocks, your portfolio is likely heavily biased towards larger firms. And for good reason. Consider the **S&P/TSX Composite Index**. It represents roughly 70% of the value on the Toronto Stock Exchange yet only 250 companies are included. The vast majority of the index is comprised of multi-billion-dollar companies.

But what happened to the remaining 30% of value on the TSX? Why aren't those companies included in the index? The biggest reason is size. There's a reason why major market indexes like the **S&P 500 Index** only include big firms: liquidity. If a company is only worth $100 million, it's possible that less than $1 million worth of shares trade on a daily basis. If a fund has $1 billion in assets under management (a relatively small sum), it would be very difficult to buy and sell stock in that company without dramatically influencing the price.

While you can make a market index that follows anything, we compare performance with the big indexes because that's what most funds are competing against. That means smaller companies often fall off the face of the earth. They're not included in market indexes, major mutual funds, or analyst research reports. Small-cap stocks are the market's orphans, but they shouldn't be. Over time, small-cap stocks consistently *outperform* large-cap stocks. But if you're like most investors, you're hardly invested in these undervalued, high-growth firms.

How to go small

You've likely heard of **Royal Bank** and **Suncor Energy**, but what about **Boyd Group Income Fund** (TSX:BYD.UN) or **goeasy** (TSX:GSY)?

Countless mutual funds owns shares in RBC and Suncor. Both companies have scores of analysts that follow their every move. Is that because these stocks represent attractive investments? No. The attention these companies get is simply due to their size. Suncor is worth $63 billion, while RBC is valued at a whopping $149 billion.

What about Boyd Group and goeasy? Boyd Group is worth less than $4 billion, while goeasy hasn't even surpassed a $1 billion market cap. In terms of size, these stocks are puny. Yet it's their small size that allows them to grow significantly faster than their larger peers. After all, it's easier to double in size as a $1 billion company than as a $100 billion company.

Over the last decade, shares of Goeasy are up more than 400%. Boyd Group stock, meanwhile, is up nearly *4,000%*! It's rare to find these returns with large-cap stocks. If you're invested in large index funds or mutual funds, you're probably missing out. As with large-cap stocks, small-cap stocks are never a sure thing. But over the long term, exposure to small companies has proven a winning formula. Don't miss out.

CATEGORY

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TICKERS GLOBAL

1. TSX:GSY (goeasy Ltd.)

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