



3 Reasons I'm Wildly Bullish on TSX Stocks

Description

The results are in, and it's official. The 2010s were not a good decade for Canadian stocks.

The **TSX Composite Index** posted an annual compound growth rate of just 3.9%, driven lower by routs in many commodities. Gold and other precious metals collapsed in 2012, and then oil suffered a similar setback in 2015.

American stocks, meanwhile, fared much better. The **S&P 500** grew 11.2% annually through the last decade, as strong performance in seemingly every sector drove the overall market higher. Yes, American oil stocks suffered when the commodity tanked, but their weighting in the benchmark index was much lower than here in Canada.

I firmly believe the next decade will be a whole lot better for Canadian stocks. In fact, I'm positioning my portfolio to take advantage of this. Here are three reasons why.

A reasonable valuation

The TSX Composite trades at approximately 15 times forward earnings expectations. This is a very reasonable valuation, especially when compared to interest rates.

The average TSX stock offers a 6% earnings yield. The 10-year Government of Canada bond, meanwhile, yields just a hair over 1.5%. It isn't hard to find quality TSX stocks that trade at a cheaper valuation, either.

Take **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) as an example. This stalwart Canadian bank is the third-largest financial institution in the country. It delivers steady earnings from its domestic operations, growth potential from its international business, and exposure to other growing parts of the financial services sphere, like wealth management and capital markets. Yet shares trade at less than 10 times forward earnings estimates.

That doesn't make much sense to me, so I've been buying Scotiabank shares lately.

The main factor keeping Scotiabank shares depressed today is weakness in the Canadian mortgage market. We point to [overvalued real estate markets](#) in Toronto or Vancouver and predict growth will be slow for a while. But what about cities like Ottawa, Montreal, Winnipeg, Calgary, and Edmonton — places that aren't so overvalued? Couldn't they see significant growth, as both domestic and international migrants choose these more reasonably priced places?

Scotiabank investors are also getting paid a generous dividend to wait, with the yield currently at 4.9%. Dividend growth has been excellent over the last decade too, and with a payout ratio of approximately 50% of earnings, the company can continue hiking the payout, even if earnings stay flat for a little while.

Energy recovery

I believe [energy will start to recover](#) sometime relatively soon, which will then propel the TSX to new heights.

Much of the growth in North American energy production has come from fracking — a controversial method that doesn't have many fans outside of oil-rich areas. There's a good chance fracking gets banned, especially if the United States elects a Democrat in 2020.

If that happens, it's very good news for Canada's oil producers. The oil sands operators, like **Suncor Energy**, should particularly benefit. Suncor's existing production would generate gobs of cash flow — cash it could then put to work developing new assets.

You can even argue one last boom in energy would also be good for the planet. Nothing incentivizes investment in green technology much more effectively than high oil prices.

Immigration

Many of the world's top economies are embracing a more anti-immigration stance. Immigration was a major reason why the United Kingdom voted to leave the European Union, while the United States is building a wall along its southern border to keep illegal immigrants out.

Canada, meanwhile, continues to take in between 250,000 and 300,000 immigrants per year.

These folks are a big net benefit to the country. They work hard, with many starting their own business and creating jobs. They buy homes and groceries and many other things, contributing to the growth of the economy. And their children overwhelmingly embrace higher education, which leads to all sorts of other benefits.

Canada has vaulted to the top of the list for many smart people who are looking to immigrate. This could be a big benefit to the economy over the next decade, which will be reflected in the performance of our stock market.

The bottom line

If you believe, like I do, that 2020-2029 will be Canada's decade, then it's time to get long Canadian stocks. It's that simple.

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