TSX Index Crashes 30%: Here’s What to Buy and Avoid

Description

Let’s not mince words. This past month has been nothing short of a nightmare. Many Canadians have lost a fortune in the stock market, while the loonie also plunged around 5% following the devastating failure of OPEC+ and the subsequent plunging of oil prices.

The **TSX Index** crashed 12.3% on Thursday, marking its second double-digit percentage drop on the week. The index is now in deeper bear market territory, currently down 30% from its highs. After the recent series of unfortunate events, it shouldn’t be a surprise to see the TSX Index crashing harder and faster than the **S&P 500**, which is currently down 26% from the top.

Now, enough with the bad news. You’ve probably had more than enough of it, and it’s probably just going to serve to make you hurl. There are ways to combat risk, take advantage of opportunities, and protect yourself without needing to panic.

But first, if you’re like many passive Canadian investors, you’re probably doing yourself no favours by being overweight in the lousy TSX Index. And with the now abysmal FX rate (your loonie just buys you US$0.71 and change after the oil shock), the **S&P 500** may be tough to buy right now too. So, now is as good a time to be a stock picker, because, frankly, we’re in a stock pickers’ market right now.

The TSX Index: a truly lousy investment

In many prior pieces, fellow Fool Kay Ng and I noted that the TSX Index was, indeed, a horrible investment on its own.

It’s just undiversified and leaves passive investors at great risk relative to a properly diversified index like the S&P 500. Don’t get me wrong; Canadian stocks are still terrific, but you’ve got to picks your spots carefully and not let your portfolio have a similar sector weighting as the TSX.

The TSX Index took a brunt of the damage thanks to its overweighting in the energy and financial sectors, both of which are among the most vulnerable following the “one-two punch” to the global economy — one being the coronavirus (COVID-19) pandemic, and two being the collapse of OPEC+.

The two improbable black swan events that were unlikely to happen happened. And they arrived at the same time. With some pundits looking for oil to tank to US$20 (or lower), it becomes more evident that the TSX Index will only serve to amplify your damages amid this violent sell-off given its overweighting in two of the most vulnerable sectors at this juncture: energy and financials.

So, it may be time to break up with the TSX and look for your own Canadian stocks instead.

What to buy

Everything is a falling knife right now. By diving into the sea of red, you’re likely going to feel immense pain over the near to medium term. But in the grander scheme of things, it’ll be worth it.

With the TSX Index down 30% from the top, I think we’re closer to a bottom than a top, but I could be wrong. In any case, you don’t want to time the bottom. So, avoid stocks within sectors that are most vulnerable and seek shelter in battered stocks within industries that are less likely to be impacted by the deadly outbreak of the coronavirus (COVID-19).

Consider steady dividend payers that are not within the energy or travel industries. Think recession-resilient stocks like **Dollarama**. Bite your lip, buy them, and do yourself a favour and don’t even look at how they fare over the near term. Focus on what to buy, not how much damage you’ve taken. And you’ll be well ahead in the game.

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joefrenette