5 Factors That Make TSX Stocks a Buy

Description

The past few weeks have been one of the greatest times to buy TSX stocks in the past few years. The market crash has brought many high-quality companies previously trading at premiums down to levels where they have considerable value.

Whether you choose to buy specific stocks or just gain exposure to the market through index funds, now is the time to be buying.

For investors seeking to invest passively and buy index funds, I've previously recommended the **iShares S&P/TSX 60 Index ETF** (TSX:XIU).

By buying an index ETF, investors get exposure to a number of TSX stocks. This helps investors who don't have the time or expertise to research stocks to still gain exposure to the market. It also allows investors who don't have a large amount of funds to make a single investment and get a diversified group of TSX stocks.

As a diligent investor buying TSX stocks, you may be wondering what causes the TSX to rally or decline.

Here are the five biggest factors.

U.S. markets

Canadian stock markets have always been influenced by the American stock market and economy. That's because not only is the U.S. our largest trading partner, but its economy is also considerably larger than the Canadian economy.

This means that if the U.S. economy is slowing, it's likely to weigh on Canadian stocks. But when the U.S. economy and markets start to boom, that's when TSX stocks become buys.

Canadian fiscal and monetary policy

Canadian policies play an important role in the movement of TSX stocks as well, whether it be a fiscal policy announcement by the federal government or changes to monetary policy set by the Bank of Canada.

If there is a policy change that will affect businesses, whether good or bad, it will influence the TSX.

Oil prices

Oil prices are another factor that plays a major role. Because so many companies on the TSX are energy companies, the price of oil can have a big effect on the TSX.

Furthermore, the Canadian dollar is what’s referred to as a petrocurrency. When the price of oil is declining, so too is the Canadian dollar. This means that investments in Canada are losing value in other currencies, even if the stock prices don’t move.

Oftentimes when oil prices fall, the prices become too low to become economically viable. This means that oil prices have to bounce back eventually. When the price for oil is that low, TSX energy stocks will be a major buy, as their valuations will be severely impacted in the short term.

Investor sentiment

Investor sentiment is always something to watch for. When sentiment is high, and investors are rushing to buy TSX stocks, markets will appreciate.

However, when that sentiment starts to fall due to uncertainty or panic, as we are seeing now, TSX stocks lose appeal, and many valuations are consequently lowered.

Until there is confidence from investors again, stocks will remain low. That’s usually one of the best times to buy TSX stocks.

Foreign direct investment

The last thing that has an influence on TSX stocks is foreign direct investment. Foreign investment is key for any economy to grow.

It can also play a major role in financial markets too. If the Canadian dollar is cheap on a global scale, and investors like the prospects of investing in Canada, and influx of foreign investment can increase the valuation for stocks considerably.

Bottom line

It’s important to remember that indices are made up of stocks, so most could be up one day, but if one sector is down considerably, it could drag the entire index down in the short term.

Over the long run, these are the five most important factors to watch. But none of them really matter if you are a long-term investor.

All that matters is that you understand what's happening with your investments and you buy when these TSX stocks are cheap then hold for the long run. If you do this, you will be successful.

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Date
2025/08/26
Date Created
2020/03/26
Author
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