How to Find the Best TSX Investments

Description

Investor sentiment plays a big role in how the stock market moves. Not only does it impact whether or not stocks are gaining or declining. It also impacts what sectors are outperforming and what sectors are underperforming. By having a good idea of what investor sentiment is likely to be in the future, it can help you to find the best TSX investments today.

Oftentimes, long-term investors shouldn't worry about investor sentiment. It's irrelevant to long-term investing, because if you're buying a company for its operations and prospects, then investor sentiment will have no effect on the outcome.

Getting too caught up in what the market is doing or what investors are thinking can be catastrophic — not just because it adds another layer of confusion to an already convoluted subject of investing.

Why long-term investors should have at least some idea of investor sentiment is because it can create opportunities to find the best TSX investments.

Finding the best TSX investments

If you know a stock or sector is underperforming only because investors are avoiding it, and not because there is any heightened risk, that stock could be a great opportunity. When investor sentiment returns and starts to grow, without anything changing to that company's business, on sentiment alone, its value will go up.

For example, in the current market environment, many investors believe that we are headed for a recession. Whether or not that actually plays out is a whole other topic, but what matters for investors today is that investor sentiment seems to point to an impending recession.

This has caused many utility and consumer staples stocks to outperform the rest of the market.

For example, **Fortis**, one of the top utility stocks, is down only 12% from its 52-week high. Not only did the stock hold up better, as others were being sold off, but when markets started to turn and rally, this

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is one of the first stocks many investors were buying.

This isn't surprising given that utilities are some of the most defensive stocks and a top TSX investment in a recession. They are defensive because they are such great businesses to own in a recession. Plus, the stable and regulated cash flows they receive are paid out to investors.

So, these utility stocks become extremely popular among investors for their stable dividends.

Sentiment creating high-value investments

You may be wondering how it is that this can create opportunities for a long-term investor.

The thing with investor sentiment is that when all of these investors are rushing to add defensive utilities and consumer staple stocks, they are selling other stocks to do so.

The same logic and intuition that causes investors to load up on defensive stocks tells these investors to sell high-growth stocks, such as those in the tech or consumer discretionary industries. And when these stocks become oversold by investors looking for safety, that's when they become some of the best investments on the TSX.

High-growth companies that have exceptionally high valuations during bull markets will almost always lose a tonne of value in bear markets.

Investors bid up the shares considerably, giving major premiums to the stocks they expect to grow significantly. These valuations make sense when there is confidence in markets and the stocks are growing rapidly.

As soon as sentiment starts to decline in markets, though, the premiums to these companies' valuations erode immediately.

That's why a high-growth stock such as **Aritzia** is still down roughly 50% from its highs, even after the major rally in stocks the last few days. Aritzia is a high-growth retail and fashion company. The company has been growing an expanding its store count rapidly the last few years.

Investors couldn't wait to buy the stock just a few months ago. So, today, down 50% from those share prices, the company looks like one of the best investments on the TSX.

Bottom line

Knowing why stocks are being sold or bought is crucial, as it lets you know where investors are likely to invest next. That will be key for investors. As it helps them to identify unloved companies and find some of the best investments on the TSX.

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