# TSX Stocks Could Face a Lost Decade: Here’s How to Avoid It

### Description

The **S&P/ TSX Composite Index**, the benchmark for **TSX** stocks, is currently trading at 14,900. That’s precisely the same level seen in June 2008. In other words, an investor who passively invested in the country’s benchmark index before the financial crisis would have spent 12 years with 0% price appreciation.



Investors often assume that stocks can go up or down. What they fail to realize is that stocks could be range bound and stagnant for a frustratingly long period. With the current economic crisis, we could be on the verge of another such lost-decade. Here’s why:

## Low-growth environment

The Bank of Canada was already concerned about lackluster growth before the pandemic erupted. Canada’s economy was projected to grow less than 2% annually for the foreseeable future, driven mostly by consumption and immigration. However, now the pandemic has thrown these growth engines off track.

The price of crude oil is likely to remain lower for longer. Consumers have already hit a ceiling in their ability to borrow to fund consumption. House prices could be on the verge of correction. Job creation is going to be a struggle while immigration numbers could dwindle unless the pandemic is resolved.

In other words, the economy could stagnate for several years if not a decade. This will be reflected in the TSX stocks and the index, which is heavily weighted to energy and financial stocks. Passive investors in Canada could see the same gradual loss of wealth British and Japanese investors have had to deal with in the past.

## Too much debt

Another factor dragging down economic growth is debt. On every level, Canada is overleveraged. Household and corporate debt is already worth more than 100% of gross domestic product (GDP). Federal debt could surge this year as the government borrows money to fund stimulus packages for businesses and citizens.

The cost of servicing debt takes a bite out of economic growth over time. TSX stocks may have to spend a larger portion of their earnings paying taxes to service government debt or interest payments on their own borrowings.

In short, TSX stocks could face extended stagnation. However, investors can avoid this frustrating outcome by adopting an active approach.

## Avoiding stagnation

While TSX stocks could stagnate in aggregate, certain sectors of the economy could outperform others. Technology, for example, is driven by innovation rather than debt. Tech stocks have already outperformed the rest of the economy over the past decade — a trend that could continue for the foreseeable future.



The market for telemedicine, e-commerce and cybersecurity are all expected to expand by double-digits every year. This could benefit stocks such as **WELL Health Technologies, Shopify** and **Absolute Software**.

Another way that Canadian investors can avoid stagnation is to bet on emerging markets. **Fairfax India Holdings**, for example, could serve as a proxy for India’s immense growth potential. The **iShares MSCI Emerging Markets Index ETF** is another way to bet on faster growth and wealth creation in the developing world.

## Foolish takeaway

Time is incredibly more valuable than money. Monetary losses can be covered quickly with the right investment. But a lost decade is never coming back.

If you’ve been passively investing in TSX stocks through a broad index fund, it might be a good time to consider what the index represents. Energy and financial companies that contribute the bulk of Canada’s stock index could face several years or more of gradual recovery.

If that’s the case, your investments are better off in emerging markets or emerging technology companies.

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