Will Stocks Go Up or Down? How About Sideways for 10 Years?

Description

TSX stocks have had a wild ride this year. The TSX Index started the year at $17,100, lost a third of its value by March and has since bounced back 38%. Overall, the Canadian stock market is trading just 9.5% down for the year.

However, the economy appears poised to lose far more than 9.5%. The International Monetary Fund (IMF) expects Canada's GDP to drop 6.2% this year. If we get hit with another wave of infections in the fall or if the economic recovery takes longer than expected, GDP could be suppressed for several years.

TSX stocks, however, do not reflect this reality, prompting investors to wonder if this disconnect can be sustained as stocks move higher or if another bear market is on the horizon. Few are considering the possibility of a third option: a lost *decade*.

A lost decade

Stocks could be range bound for several years. Japan has experienced this for several decades. The Japanese stock market delivered just 3% between November 2001 and May 2005. In fact, it was trading at the same level by 2013. That's nearly 12 years of no price appreciation.

In the United States, the **S&P 500** delivered just 2% between 2000 and 2007. The index was also essentially flat during the 1970s. In Canada, the TSX Index remained flat between 2008 and 2018. Investors called it the "lost decade." Now, prominent investors such as Ray Dalio see another Lost Decade on the horizon.

Dalio believes companies will have more debt and less profits after the current crisis is over. It could take years for earnings to recover to the same level. Meanwhile, stock prices could be held up by government stimulus and debt in the economy. In other words, TSX stocks and their global counterparts could remain stagnant until earnings recover.

Given that the TSX Index is dominated by financial, mining and energy stocks, this situation seems remarkably likely.

Avoid the TSX stock stagnation

There are ways to avoid stagnation in the economy. Certain assets or TSX stocks could grow despite the macroeconomic conditions.

Small technology companies, for example, tend to have little debt and broader growth prospects. **Shopify** is already the biggest stock on the TSX. It could grow much bigger by the end of the decade.

Investors could also bet on non-equity asset classes. Gold, for example, could appreciate in value if the economy stagnates and stocks remain dormant. Investors in **Barrick Gold** have already had an incredible run this year – which could continue if the economy remains suppressed for years.

Bottom line

Investors usually wonder whether TSX stocks will rise or fall. However, they could also remain stagnant for several years. Given the state of the economy, this seems like a possibility for the decade ahead.

Avoid bleeding wealth by betting on technology or tangible assets like gold. Asset-light technology companies have plenty of room to expand despite the crisis.

Gold, meanwhile, does better during crises. These segments of the market can help you sustain wealth in your portfolio.

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