How to Begin Investing in the TSX With a TFSA

Description

A crisis situation highlights the importance of saving. After the 2009 financial crisis, the Canada Revenue Agency (CRA) started the Tax-Free Savings Account (TFSA) to reward Canadians for saving for the future. Every year, you can invest $5,000 to $6,000, depending on the limit set by the CRA, in stocks, bonds, or any other form of investment. Any amount earned through these investments will be tax-free. You can withdraw wholly or partially from this account.

If you have just started to invest and have no immediate financial goals in the next three to five years, stocks are an excellent place to start. They give incredible long-term returns and generate wealth.

Investing in Toronto Stock Exchange (TSX) can be tricky, as there are some hyped stocks, such as **Aurora Cannabis**, which grew significantly for 15 months and then went downhill. Those who lost money in such stocks fear investing in TSX. Hence, it is essential to know which stocks to invest in and which stocks to avoid.

Beginners guide to TSX investing

Everyone makes investing mistakes, but the gains should outdo the mistakes. Early investment gains can build your confidence in the TSX and help you identify good stocks. The best way to minimize risk is by diversifying your investments. Diversification can be difficult and expensive if you invest in individual stocks. Index funds can help you gain diversified exposure at a low cost.

Index funds

One good index fund is the **iShares Composite S&D/TSX Index ETF** (TSX:XIC), which tracks theTSX Composite Index. The index constitutes the top 250 companies that make up 70% of the market capitalization of the TSX. It is weighted toward financial, raw material, energy, and industrial sectors. The S&P Dow Jones quarterly reviews the index and replaces weak-performing stocks with good stocks. At the start of June, S&P removed **Bombardier** from the TSX Composite Index, as the stock continued to trade at its all-time low of $0.5 for three months.

The stock market goes through peaks and troughs, which could inflate or deflate their short-term returns. Hence, you should invest in the TSX for a minimum of three years to benefit from the stock market volatility. If you had invested $1,000 in XIC in June 2017, you would have earned $120 after factoring in the March market crash and $270 before the market crash.

Sector Funds vs Index Fund		**Three Years**		**Five Year**	
ETF Name	**Ticker**	**Before Market Crash**	**After Market Crash**	**Before Market Crash**	**Aft**
iShares Core S&P/TSX Capped Composite Index ETF	XIC	28%	11%	40%	
iShares S&P/TSX Capped Information Technology Index ETF	XIT	108%	145%	168%	
iShares S&P/TSX Capped REIT Index ETF	XRE	48%	6%	64%	
iShares S&P/TSX Capped Financials Index ETF	XFN	27%	2%	55%	
iShares S&P/TSX Capped Utilities Index ETF	XUT	42%	23%	80%	

Sector funds

If you are bullish on a particular sector, you can reduce the radius of your diversification to niche markets using sector funds. There are funds that give you exposure to some of the best stocks in information technology, REITs, utilities, and financial sectors. Some of these sector funds have significantly outperformed the XIC in the last three and five years. In the current scenario, the pandemic has significantly impacted the real estate and financial markets. The looming recession will make matters worse for these sectors. Hence, it is better to avoid these sectors until the economy stabilizes.

Technology stocks

I am bullish on the **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT). The ETF has over 50% exposure to application software segment, which earns recurring revenue and has stable cash flows. The COVID-19 pandemic came as a boon to the IT sector, as enterprises went digital. But the ETF outperformed all other sector funds even before the pandemic, growing 108% in three years and 168% in five years.

The ETF has more than 50% weighting in **Shopify** and **Constellation Software** and another 30% weighting in **Open Text** and **Kinaxis**. Three of the four companies provide cloud services. Shopify became the poster child of the pandemic, as retailers jumped into e-commerce. Some analysts called it the next **Amazon**.

Constellation Software acquires companies that offer mission-critical software to niche verticals. Open Text and Kinaxis provide enterprise software solutions that enjoy stable revenue and cash flows from long-term service contracts. The three companies have exposure to large enterprises across different verticals, which makes them resilient to an economic downturn. The above tech stocks will continue to grow even after the pandemic, as they are well placed to tap the new normal of digitalization.

Start investing now

Even if you have $2,000, invest $1,000 in each index fund and technology sector fund. Your money could double in the next five years.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners
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TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
2. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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