Forget the TSX Index: I'd Rather Buy This Dividend Stock in a Recession

Description

The **TSX Index** has been slow to recover following from one of the sharpest stock market crashes in history.

At the time of writing, the **S&P 500** is around 6% away from reaching those pre-pandemic heights, while the **TSX Index** is still down over 13%. Heck, the **NASDAQ Index** is a whopping 7% higher than where it was prior to the COVID-19 crash of the first quarter.

While some frustrated Canadian investors may be of the belief that the TSX Index will eventually catch up to its bigger brothers south of the border, I'd argue that the TSX Index is more likely to underperform given its heavy weighting in some of the more vulnerable sectors of the market, including the financials, and commodities. Not to mention that tech, which has been leading the latest upward charge, is severely underweight on the Canadian index.

I'll go ahead and say it. On its own, the TSX is a pretty terrible investment. It's improperly diversified across sectors, leaving many Canadian passive investors reluctant to wander south of the border in a tough spot. The TSX Index's less-than-ideal sector weighting puts it in a spot to miss out on the feasts that are global market rallies while still participating in ensuing market crashes.

For Canadian investors, the answer is simple. Construct your own portfolio and pick your spots across the TSX Index. You'll find that as a self-guided investor, it can be quite easy to beat the TSX Index on a somewhat consistent basis as you seek to create a well-balanced, diversified portfolio that can profit profoundly from secular trends while steering clear of sector-wide implosions that would otherwise decimate the broader TSX Index.

Although I'm of the belief that the TSX Index is a poor investment, there's an abundance of severely-undervalued gems just waiting to be dug up by self-guided investors willing to roll up their sleeves and do the research and analysis.

Shaw: A cheap dividend stock capable of putting the TSX Index

to shame

Consider **Shaw Communications** (TSX:SJR.B)(NYSE:SJR), a Canadian telecom that just doesn't get the respect it deserves from investors. The firm behind the disruptive Freedom Mobile takes the role of a disruptor in the Canadian telecom scene.

With an ever-improving wireless infrastructure, the value proposition offered by Freedom looks to be improving with time. While the Big Three telecoms are also investing heavily in next-generation telecom tech, the network quality gap will shrink over time as Freedom looks to catch up with its bigger brothers in the space.

The coronavirus pandemic has been cruel to many businesses, and Shaw hasn't been immune. In the grander scheme of things, however, the coronavirus recession will accelerate for Freedom Mobile's wireless growth, as Canadian consumers seek to save money with value-conscious offerings at the cost of marginally better network quality.

The telecom sector is resilient in the face of a recession. With one of the better value propositions out there, Freedom Mobile takes this resilience to the next level. In times of economic hardship, people need every dollar to go as far as it can.

With a reputation as a value-conscious carrier, I wouldn't be surprised if Freedom's already impressive subscriber growth numbers increase at the expense of the competition for the duration of this recession.

Foolish takeaway

The stock currently trades at 1.8 times book, and 2.1 times sales, with a 5.4% dividend yield and a low 0.6 five-year beta. If you're looking for a firm that can grow out of the looming coronavirus recession at a good price, Shaw looks like a far better bet than the TSX Index. So, if you're a passive investor, consider getting a bit more active!

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joefrenette