The TSX Index Has Added $800 Billion Since March: Have You Missed Out?

Description

The TSX Index is up 45% since March 23. That's an astounding $800 billion gain in market value in just 16 weeks. Investors are still looking for the best growth stocks to buy, but are they too late? Is the market overheated? Here's a closer look.

TSX Index valuation

S&P/TSX Composite Index, a broad benchmark for Canada's stocks, is currently worth $2.5 trillion. That's larger than Canada's entire economy. In 2019, Canada's gross domestic product (GDP) was just $2.29 trillion. This year, with the pandemic and lockdown, GDP is likely to be marginally lower.

In other words, the TSX Index is worth more than the national GDP, which is usually a bad signal. This signal, known as the Buffett Indicator, measures valuation. It was at a similar level before the 2008 market crash and economic crisis. This means we could be due for another crash.

However, investors may need to take a step back and consider the broader picture. When picking stocks to buy, investors need to measure the average return over many years rather than the expected returns over the next few months. Based on the Buffett Indicator's current level, experts believe the long-term average annual return of the TSX index could be 5.7%.

A 5.7% compounded annual return is remarkably attractive, particularly in a world where the yield from rental properties and savings accounts has dropped. If you're looking for stocks to buy and hold for a decade or more, this could be the perfect opportunity.

Stocks to buy

You could enhance your returns further by focusing on sectors that are likely to outperform the TSX Index over the long term. Industries such as technology, luxury apparel and discount retail have all experienced faster growth than the rest of the economy.

Companies such as **Shopify, Canada Goose**, and **Dollarama** should be at the top of your list of stocks to buy. These firms have delivered double-digit annual growth rates over the past decade and have plenty of room to expand further.

Meanwhile, certain dividend stocks offer yields that are considerably higher than the 5.7% expected return on the TSX Index. Pipeline and natural gas giant **Enbridge**, for example, offers a 7.3% dividend yield. Telecommunications giant **BCE** offers 5.9%, which is still better than the TSX Index.

Whether you want to buy stocks that offer growth or income, you could outperform the TSX Index over the long term. That makes the current valuation of the aggregate market somewhat irrelevant.

Bottom line

Despite the economic chaos, the TSX Index has surged higher in recent months. In fact, Canada's stock market has added the same value as Turkey's entire economy in fewer than 16 weeks.

Now, the market is worth more than the entire economy. While this could indicate that the market is overvalued, the Buffett Indicator suggests long-term annual gains could be 5.7% on average.

If you're looking for stocks to buy to beat this return, consider high-yield dividend stocks or high-growth opportunities.

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