TSX Stocks: Here's How to Avoid Short-Term Uncertainty

Description

So far, 2020 has been a volatile year. Despite a market that is back on track and near where it started the year, there have been massive changes due to the coronavirus pandemic. Furthermore, while indices may look little changed, some **TSX** stocks have seen massive impacts.

This highlights the importance of managing volatility. It's always important to own high-quality stocks. But in this day and age, it's especially important to make sure your investments aren't being too impacted by the pandemic.

In addition to being defensive and aware of the risks, you also don't want to be too conservative. The last few months have shown just how much the market can rally, even during the biggest health crisis in a century.

The best investment strategy for TSX stock investors

Selecting individual stocks is never easy. While many investors try to beat the averages of indices, often, it's extremely difficult to execute.

During this pandemic, stock picking has become even harder. While there are certain trends from industry to industry, even among similar companies, we have seen some pretty substantial differences in the impacts.

There are several variables that remain uncertain, which only makes stock picking even more difficult.

So, for investors wanting exposure to TSX stocks today but are wary of the significant risks that persist, your best bet would be to buy index funds.

Index funds as an investment

As I've said before, stock picking is complicated, even in the best of markets. So, one of the best options for investors to consider is buying index funds for the long term.

In fact, even the world's greatest investor, Warren Buffett, has recommended that most investors should consider index funds.

This way, you're gaining exposure to the growth of the stock market over time, without the risk of investing in stocks that may underperform their peers.

And with the major diversification of an index fund, you don't have to worry about a single TSX stock going bust, only the economy and the stock market as a whole continuing to grow.

A top TSX stock index fund

One of the best funds for investors to consider that will give exposure to TSX stocks is the **iShares S&P/TSX 60 Index ETF** (TSX:XIU).

The ETF is made up of the 60 largest stocks on the TSX that come from all 10 TSX industries. The XIU is a great index fund to buy, because it has the highest-quality blue chips from the TSX.

Not only does index investing help to reduce volatility, but the TSX 60 index itself is not very volatile at all. This helps investors to keep their capital stable.

With index investing, investors are giving up some of the upside exposure for safety. This means that the best approach to take when buying stock indices is a long-term approach.

We have seen time and time again that in the long term, the economy and market will almost always continue to grow. So, you can't go wrong buying and holding index funds for decades to come.

Plus, it returns an appealing 3.1% dividend, offering investors long-term dividend growth in addition to the share price appreciation.

Bottom line

Trying to pick TSX stocks and beat the market is not easy. Investors should consider investing some or all of their capital in stock indices.

You could even have your index investments make up the core of your portfolio, then look to complement that stability with small investments in the highest-potential growth stocks.

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