Canadians: Don't Give Up on TSX Shares — Here's Why

Description

The U.S. indices have stolen a majority of the spotlight in recent months, and for a good reason. They've enjoyed an unprecedented relief rally that's almost as unprecedented as the February-March coronavirus sell-off. The tech-heavy NASDAQ and S&P 500 indices are above their pre-pandemic levels at the time of writing, with the former index well above its February highs, despite the recent September correction, which could easily evolve into a bear market as we exit a month that's historically bad for equities.

Meanwhile, the **S&P TSX Index Composite** continues to trail, still 10% off its pre-pandemic highs thanks to an underweighting in pandemic-resilient technology stocks and an overweighting in sectors that were hardest hit by the COVID-19 pandemic (energy and financials).

The S&P 500 crushes the TSX Index — again

If you're like many Canadian investors, you're probably frustrated with the fact that our friends south of the border have been posting better returns of late. If you've got a heavy concentration in Canadian stocks or if you're unfortunate enough to have invested in a TSX fund, your portfolio still may not have recovered from the vicious market crash suffered earlier in the year.

In terms of markets, there's no doubt that the grass seems a heck of a lot greener on the other side of the border, especially considering the fact that you'd already be up for the year if you had concentrated your portfolio in U.S. names. While it seems easy to throw in the towel on Canadian stocks for their U.S. counterparts, I'd urge you to not take drastic moves with your portfolio just because of the discrepancy in returns over the last few months.

Are Canadian stocks more undervalued?

I believe TSX-traded shares, on average, are more undervalued than their U.S. counterparts. And I'm not just talking about the companies (oil firms or banks) that are at ground zero of the COVID-19 crisis either. The tech-heavy U.S. indices have been mostly dragged higher by frothy tech stocks. If you take tech out of the equation, you'll find that the S&P 500 is looking more like the TSX Index than the NASDAQ.

While it may be tempting to chase the greater momentum south of the border, I'd urge you to consider bargains on this side of the border, rather than ditching all your Canadian stocks for hotter, albeit more expensive U.S. stocks.

Lately, I've found it easier to spot value in Canadian markets rather than in the U.S. following the latest tech-driven relief rally. If we're due for the advent of a vaccine in 2021, overlooked consolidating value names could become the new leaders of this market rally, not the first-half winners that are currently in the process of correcting.

The Foolish takeaway for Canadians

As a Canadian, you should strike a good balance between U.S. and Canadian stocks. To do well in the markets, you've got to skate towards where you think the puck is headed next, not where it's already been.

TSX index funds may be terrible investments given their improper sector-wide diversification. However, you can succeed as a Canadian-focused investor if you pick your own spots, so you can steer clear of industries in turmoil and buy businesses that are unfairly thrown in the bargain bin. Don't give up on TSX shares, because that's where the greatest discounts to intrinsic value ranges may be currently at this market crossroads.

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