Not Sure Where the Markets Will Go? Here’s How You Can Gain

Description

Stocks continued to soar higher when the financial media was busy with its market crash rhetoric. If you are not sure where the markets will go in 2021, you are not alone. Even the market pundits and street veterans don’t know for sure about the market’s direction.

Markets in 2021: Another crash or record highs?

Indeed, the economic recovery seems underway after the pandemic and mass vaccination efforts. But there is a severe disconnect between the economic picture and the market’s recent run-up. How the macroeconomic scene progresses, particularly after the flurry of stimulus packages, also remains to be seen.

In short, there is a tremendous amount of uncertainty, which will weigh on stocks this year. But should you care about the market direction? No!

Index funds can be the solution here. It’s like betting on the entire index instead of betting on some specific sectors or stocks.

An index fund is a basket of stocks that provides exposure to the broad market index, which gives a combined, diversified representation. They offer safety and create enormous wealth over time.

How Warren Buffett plays the uncertainty

Warren Buffett is a strong supporter of index funds. His investing conglomerate **Berkshire Hathaway** holds a couple of index funds south of the border.

If you are in your early days of investing, getting exposure through index funds could be a smart way of betting on markets. By buying index funds, you are indirectly investing in all the constituents of that index as per their weights.

If investors want to imitate S&P 500 returns, they can think of **iShares Core S&P 500 Index ETF** (TSX:XSP) (CAD hedged). Investors can get exposure to top U.S. companies like **Alphabet**, **Apple**, and **Facebook**, and many others with this index fund. The fund has returned 235% in the last decade, including dividends.

Many investors avoid index funds, as they are slow moving and have perceived low growth. But they offer favourable risk/reward characteristics, particularly for low-risk investors.

Index funds for Canadian investors

If you want to bet on the Canadian stock market at large, you can consider **iShares S&P/TSX 60 Index ETF** (TSX:XIU). It offers long-term capital gains with exposure to Canada's 60 biggest stocks.

Some of the fund's biggest holdings include **Shopify**, **Royal Bank**, and **Toronto-Dominion Bank**. The fund has returned almost 90% in the last decade, including dividends, tracking the Canadian markets but substantially underperforming the S&P 500.

Investors should note that index funds are not immune to market or volatility risk. But as investors play several stocks at once with index funds, the stock-specific risk gets branched out. So, even if one sector or stock underperforms, other stocks in the fund compensate for the losses.

Indeed, there are quite a few advantages of investing in index funds. However, putting in all your money at once would not be prudent. Warren Buffett recommends investing a specific amount regularly in these index funds. Undisputedly, it will reduce the timing risk and help achieve higher returns.

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