Better Buy: RBC Stock or the Entire TSX?

Description

Investing in stock market index funds is widely recommended. However, investors should consider if they can enhance their performance simply by picking the most attractive stock from the index fund.

Here's a closer look at the advantages and disadvantages of investing in **RBC** (TSX:RY) over the broader **S&P/TSX Composite Index.**

RBC

Canada's most valuable company is a top pick for most investors. The company manages roughly $1.7 trillion in assets and its market value is about $184 billion. RBC's recent acquisition of **HSBC's** Canadian assets broadens this lead. The deal has cemented RBC's position as the biggest bank in the country.

Meanwhile, rising interest rates are another tailwind for the company. Banks see their profit margins expand as interest rates rise. These lenders simply pass the higher rates to borrowers, preserving their margins.

That's probably why RBC stock outperformed the market this year. The stock lost just 1.3% of its value since January. That's effectively flat. Meanwhile, the S&P/TSX Composite Index is down 3.4% over the same period.

RBC also offers a higher dividend yield. The index delivers a 3.3% dividend yield, while RBC offers 3.9%. That makes RBC a better choice for investors seeking passive income.

Index fund

iShares Core S&P/TSX Capped Composite Index ETF (TSX:XIU) doesn't have some of the advantages of RBC. It offers a lower dividend yield and performed worse this year. However, it has some advantages, especially if you're a long-term investor.

Stability is probably the biggest advantage here. The index fund is spread across several sectors. That means its returns are correlated with the overall success of Canada's economy. This year, energy and utility companies are outperforming. But in some years, technology companies or consumer brands could be the biggest winners.

Last year, the index's biggest holding was a tech stock. This year, it's RBC bank. Next year, the index could have another top holding, depending on how its underlying stocks perform. Investors always have exposure to these big winners.

Over the past 10 years, the index fund has delivered a compounded annual growth rate of 7.7%. That means every dollar invested in the fund has more than doubled since 2012. The index fund has only had a few years of negative returns over this period. Overall, investors have been exposed to far less volatility.

An index fund is a better bet for conservative investors who are trying to *preserve capital* over the long term.

Bottom line

Investors trying to beat the market and generate wealth should pick blue-chip stocks like RBC. However, if you're worried about losing money and want to preserve capital over the long term, the broad index fund is probably a better pick.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)
3. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing

Date
2025/09/26
Date Created
2022/12/04
Author
vraisinghani