Better Buy: Shopify or the Entire TSX?

Description

The active-versus-passive investing debate heated up significantly following the 2007-2008 financial crisis. Before the Great Recession, mutual funds that were actively managed by portfolio managers maintained a dominant position, as investment products among the general populace. However, that changed dramatically in the face of historically low interest rates and a series of multi-trillion-dollar quantitative easing programs. Index funds, which track the performance of a given index like the **S&P/TSX Composite Index**, outperformed actively managed funds at an impressive rate over the course of the 2010s.

Today, I want to enter the active versus passive debate ourselves. Should investors feel better about owning **Shopify** (TSX:SHOP) or the Toronto Stock Exchange (TSX) index as we move into 2023? Let's jump in.

Why Shopify is the better bet for Canadian investors ahead of the new year

Shopify is an Ottawa-based company that provides a commerce platform and services in Canada, the United States, and around the world. Shares of this tech stock reached stunning heights during the COVID-19 pandemic. Shopify stock would reach an all-time high in late 2021. Unfortunately, the stock has plunged 68% in 2022 as of close on December 21. Readers can view the interactive chart below to see how Shopify has performed of late.

The e-commerce space drew considerable hype during the COVID-19 pandemic. Traditional brick-and-mortar locations were forced to close their doors. That meant that digital commerce companies like Shopify were at a huge advantage. Moreover, Shopify and its peers were set up to draw new business from merchants who desperately needed to beef up their digital presence in the face of pandemic-related restrictions.

Here’s why tracking the performance of the broader TSX is worth it

The S&P/TSX Composite Index have a very strong start to 2022. It soared to all-time highs on the back of strength in Canada’s energy sector. Indeed, soaring oil and gas prices spurred a huge run for energy stocks. That was good news for the energy heavy TSX index.

That momentum petered out in the spring and summer of 2022. Oil and gas prices softened in the face of rapidly rising interest rates and fears of an economic downturn. The TSX slipped in response, seemingly bottoming out during the fall season.

Investors who want to track the performance of the broader TSX have the option to purchase **iShares Core S&P/TSX Capped Composite Index ETF** (TSX:XIC). This exchange-traded fund (ETF) allows investors to own the entire Canadian stock market. It seeks long-term capital growth by replicating the performance of the top Canadian stock index.

Shares of this ETF have dropped 7.3% in the year-to-date period. However, the fund has climbed 2.8% over the past six months.

Which is the better buy today: Shopify or the TSX?

Shopify has fallen out of investor favour over the past year. The company announced significant layoffs in the beginning of September 2022. Founder and Chief Executive Officer Tobias Lütke conceded that the company had made a strategic error in its pandemic growth plan. I’m not looking to buy the dip in Shopify, as it is still facing major challenges in what is shaping up to be a tough economic environment in the first half of 2023.

Meanwhile, iShares S&P/TSX Index ETF offers investors a highly diversified approach that could shield them from major volatility in an uncertain climate. That is the play I’m more comfortable with right now.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:SHOP (Shopify Inc.)
2. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

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