Why Cash Is King in a Falling Market

Description

Cash in a savings account earns close to nothing. However, cash is king in a falling market. That's because when the market falls 20%, your cash essentially "earns" you 20%.

What's more is that you can use that cash to buy stocks at a lower price, thereby getting more value out of every dollar you spend, as well as a higher income. Here, I will use some energy companies as an illustrative example.

Buying stocks at a lower price

If you still believe in Canada's natural resources of energy, you can now buy energy company leaders such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) at lower prices.

Suncor has fallen by over 24% from its 52-week high; Crescent Point has fallen 46%; and Enbridge has fallen 11%. There's reason for these companies to fall to these prices because no one knows how long the oil price will stay low, and that affects the companies' bottom lines.

However, the safest bet of the three is Enbridge because it has fallen the least. Enbridge acts as storage and transporter of the commodity as well as natural gas.

Lower prices means higher yields

Generally speaking, lower prices implies higher yields. If you had bought Suncor at $45 per share, it would have only yielded 2.5%. However, today it yields 3.3%.

Since starting a dividend in 1992, Suncor has never cut it. At the same time, it has a history of irregular dividend increases. In these difficult times for the industry, Suncor could freeze its quarterly dividend next quarter. However, that means that the dividend would be maintained, and shareholders won't get a cut in their income.

Crescent Point is similar to Suncor in that it has not cut its dividend since 2003, though oil prices touched US$30-40 twice during that period. Instead, Crescent Point hiked its monthly dividend from $0.17 per share to $0.23 per share. It currently yields a juicy 10.8% after the price drop.

Any further price drops would lead to a higher yield, indicating a higher income for investors if they buy shares at the lower price.

In conclusion

After an energy sector-wide event that caused price drops across the industries within it, there is an opportunity to buy some shares at a lower price and for a higher yield.

However, a lot of patience is needed in order to hold on to those shares or even to have the courage and confidence to add to those shares on further dips. Please remember that even when the oil price recovers, it might not get back to the previous levels of $US100. In that case, the companies would need to adapt to the new normal. These leaders with strong balance sheets should be the best at adapting.

If the prices do recover, maybe in a couple of years, you would be sitting on substantial gains along with the dividend income that you received while holding.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VRN (Veren)
4. TSX:ENB (Enbridge Inc.)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:VRN (Veren Inc.)

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