Young Investors Shouldn’t Worry About Falling Markets

Description

Young people who have more than a decade to invest shouldn’t worry about falling markets. In fact, falling markets are a gift to buy companies at lower prices. What’s better than a sale?

All you need to do is focus on quality businesses and the long term.

Stick to quality

The ultimate concern investors may have is that the company they’re invested in might go bankrupt. If that happened, it would be a total loss.

However, if you only buy quality companies with stable earnings, strong balance sheets, and competitive advantages, you shouldn’t worry that they’ll go bankrupt.

Those three characteristics should allow your diversified portfolio of quality companies to not only survive economic weaknesses and any black swan event, but to thrive after that.

Example of quality

An example of a quality business with a strong track record is **Royal Bank of Canada** (TSX:RY)(NYSE:RY). It is Canada’s largest bank by market capitalization. Additionally, it has operations in 38 countries other than Canada and the United States.

In 2015 the bank increased dividends by 8%, but the payout ratio was only 45%. With a target payout ratio of 40-50%, there’s still room for dividend growth.

From 2008 to 2010, like the other big Canadian banks, Royal Bank froze its dividend during the financial crisis and its aftermath. However, from the first quarter of 2000 to 2016, Royal Bank increased the dividend by an average of 11.7% per year. That’s at least two times the rate of inflation.

Royal Bank earns one of the most stable earnings in Canada. That’s why it had the ability to maintain the dividend even during the last recession.

Today, Royal Bank has been awarded with an S&P credit rating of AA-, indicating that it is strong financially.

Long time horizon

You should know that when you invest in the market, you’ll experience ups and downs. However, if you have at least 10 years to invest, it’s pretty likely that you’ll run into a financial crisis or a recession.

In the last recession, the market fell by 50%. Of course, it was very hard to stay invested during that time. Your instincts would have told you to leave, but if you did, that would have been a big mistake.

Coming out of the recession, people flocked to quality companies first, and those were some of the most amazing gains.

For example, Royal Bank hit a low of about $30 in 2009. Today the shares are $73 even after the recent pullback. This is a gain of 143% without accounting for the dividend.

Actually, if you really bought at $30 back then, you would have started with a yield of 6.67%, and if you held your shares until now, your yield on cost would be 10.5%.

In conclusion

So, the lesson is that if you have a long time horizon and you invest in quality companies, eventually they're going to recover from any market fall. In the long term, short-term dips, even as deep as the last recession, seem like small bumps.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/26
Date Created
2015/12/14
Author
kayng