4 Things to Remember in Turbulent Markets

Description

I remember it well.

It was the summer of 2008, and I had just gone back to work after my maternity leave after the birth of my second daughter. That summer was the start of a very rough period for investors, and by February 2009 the TSX had fallen 45% from its peak in June 2008. But I, like many, learned some valuable lessons that have helped make me a better investor and that will help now when the markets are again becoming increasingly fearful, shaky, and uncertain.

Stay away from high-debt balance sheets

It is obvious that those companies with a big debt burden run the risk of not making it through hard economic times. Yet how many times have we ignored this in the hopes of making a handsome profit? Because, after all, the stocks of these companies are usually trading at discounts, so it doesn't take much to imagine the fantastic returns one can make if the company managed to remain solvent.

But I am very confident in saying that the risk is not worth it because these companies and stocks can go down very hard and leave investors sleep deprived and regretful.

Stick with stable businesses with strong cash flows

This usually means big companies with dependable dividend yields–companies whose financial results have been dependable and stable, and who have the balance sheet to weather the storm of difficult times.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is one example of this type of company. The company's business is relatively stable, somewhat diversified, and it has consistently paid a dividend. The company is firmly in place as one of the premier railroad operators in North America and continues to reap the rewards.

From the summer of 2008 to February 2009, the stock declined approximately 15% compared to the 45% decline that the TSX experienced. That's pretty good outperformance. And from that point the stock just went full steam ahead, up to heights of over $80.00 from the lows of less than $20.00.

Be patient–valuation is important

In turbulent times the market is not generally supportive of highly valued stocks. Investors feel more cautious and lofty valuations make them nervous.

As an example, let’s look at **Dollarama Inc.** (TSX:DOL). The three-month return of the TSX is -11.02%, which compares to Dollarama’s three-month return of -19.24%. It is hard to say too much that is negative about Dollarama, but valuation has definitely been one. The stock was trading at a P/E of over 30 times last year, but now it is trading at a P/E of 26 times.

Think long term

If a company has a strong balance sheet and a business that will be viable in the long run, use times of market weakness as buying opportunities. As Warren Buffett says, “Be greedy when others are fearful.”

This is the time to put this bit of investing advice into practice.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:DOL (Dollarama Inc.)

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/21
Date Created
2016/01/13
Author
karenjennifer