Why Royal Bank of Canada (TSX:RY) Is About to Crash: When it Does, Buy it!

Description

Just when you thought the end of 2018 was the worst of it and that we had escaped unscathed, *recession* has started to become an all-too-popular word to start using right about now.

It's time like this when investors need to start look at blue-chip stocks, and usually that means banks. You want to do this for two reasons: to find out what to sell and when to buy.

Honestly, right now is probably a good time to cash out on most blue-chip stocks before waiting to pick them up at a discount in the (fairly near) future. But if there's one stock I'd do that with right now, it's **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

Recession risks

To be fair, all banks are at risk if and when a recession hits. That's obvious. But Royal Bank, one of the two largest banks in Canada and among the Big Six banks, is at a very high risk of losing quite a bit. That's because the bank has the largest out of the Big Six banks invested in the housing market.

The housing bubble throughout Canada is definitely about to burst. When it does, Royal Bank will be hit extremely hard, with lending to Canadian consumers becoming nearly nil, making it very hard for Royal Bank to keep up its growth.

On top of that is the recent report from the U.S. Internal Revenue Service of an inverted yield curve. This is the first since before the Great Recession of 2008 and usually signals a recession in about a year. That's been the case every time it's popped up over the last 60 years, all but once.

If a recession hits in the U.S. as well, Royal Bank will be in for serious trouble given its expansion into the U.S. market. Right now, it's been a lifesaver with a mild recession being reported in the not-too-distant future for Canada. But being hit by two at once would be a double whammy this bank will struggle with.

But … why buy?

As I've said, all banks will be hit hard by a recession if and when it hits and no matter which country that's in. Royal Bank, while it won't be an exception, is still in a position to come out all right afterwards.

While it has expanded into the U.S. marketplace, it has also expanded internationally. This should help dampen a blow in a North America-wide recession. The bank also has a cash-filled cushion to lie back on, with about $5 trillion in assets under administration, $650 billion under management, and a dominant share of domestic banking operations. This should keep it in one of the top banking spots well past any potential recession.

Bottom line

It's also a hard pill to swallow, but recessions are actually full of opportunity. Imagine you were back in the late 2000s and sold everything in September of 2008? Then after some time you took a look at the landscape and bought something like **Dollarama** after its initial public offering?

While that example is on the more extreme side, you could also be making bank with something like Royal Bank. Let's look at before and after the Great Recession for it. If you sold 100 shares in September 2008 at $50.50, then bought them back in December at $30.41, you would still be saving about $2,000 from what you sold earlier. On top of that, today you would have more than $10,000!

So, while a recession can seem scary, if you take the opportunity to sell high and buy a blue-chip stock like Royal Bank when its chips are down, you'll feel a bit more at ease.

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