TFSA Investors: How Buying Dividend Stocks During a Market Crash Can Help You Retire Rich

Description

The stock market hit some turbulence in recent days, and TFSA investors with a long-term view are starting to get excited about the opportunity to pick up top-quality stocks at discounted prices.

Global fear

A two-day rout has reminded investors that stock prices can actually move in both directions. There is no evidence that a prolonged correction has begun, but the emergence of the coronavirus to threaten global economic stability is certainly reason for concern.

China is a key hub in the tightly interconnected world market. The outbreak has caused consumers to stay home and forced plants to close. The longer the disruption to supply chains and consumer spending continues, the more likely it is the domino effect will tip the global economy into a recession.

The IMF is already sounding the alarm bells, and major international corporations are adjusting earnings guidance to reflect the sudden downturn. In the event the virus spreads extensively outside China, the economic downturn could last months.

The TSX Index has fallen as much as 4% in the past two trading session. The Dow Jones Industrial Average slipped more than 6%. The markets are still way above their levels of a year ago, but more downside could be on the way.

Which stocks are attractive?

Investors should seek out industry leaders that have strong track records of dividend growth supported by rising revenue and earnings.

Let’s take a look at one top Canadian stock that has proven to be a great long-term buy when the market crashes.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is an essential component in the efficient operation of the Canadian and U.S. economies. The company's rail network connects the Pacific to the Atlantic in Canada and runs right through the heart of the United States to the Gulf of Mexico.

CN's importance became evident during a week-long strike last fall, and the issue is once again on the minds of businesses and the government, as protesters block rail lines across the country. CN transports $250 billion worth of cargo every year, with segments ranging from coal and cars to crude oil, raw materials, and consumer goods.

At the time of writing, CN's share price is down to $118.50 compared to $124 last week and $127 earlier this month. The 12-month low is close to $112. A move back to that level should be viewed as an attractive point to start adding CN stock to your portfolio.

CN is a very profitable company, and the board is generous when it comes to sharing profits with investors. The compound annual dividend-growth rate over the past 20 years is about 15%, and CN also allocates cash to buy back shares.

A $20,000 investment in CN just 10 years ago during the Great Recession would be worth more than $100,000 today with the dividends reinvested. The same investment made 20 years ago would now be worth about $600,000.

The bottom line

Catching the bottom of a stock's short-term decline is nearly impossible, as you never know the bottom has actually occurred until a sustained rebound is in place. As such, there is always a risk a cheap stock will get cheaper.

However, investors with a buy-and-hold strategy should consider acquiring top companies such as CN when the broader market is in sell mode. If the decline extends beyond the entry point, you can be reasonably confident the stock will recover and eventually move to new highs.

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Date
2025/08/20
Date Created
2020/02/26
Author
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