Stock Market Crash 2020: Do This in Your Stock Portfolio

Description

In about a week, the Canadian stock market (using **iShares S&P/TSX 60 Index ETF**) has fallen 9%. Some are calling this a market crash. It could very well be the start of one.

However, from the percentage of the drop so far, at worst, it should be close to being called a market correction. Let's keep in mind that market dips are normal market behaviour.

Recall that the Canadian stock market had a stellar year in 2019, appreciating more than 18%. So, the market correction simply brings the frothy market valuation back to more normalized levels.

What should you do in your stock portfolio when we experience a stock market crash?

Stay the course

If you are building or have built a diversified stock portfolio of the key sectors, keep holding what you have. Holding stocks for the long term is how you can create tremendous wealth.

For example, you may have at least one big Canadian bank, such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY), one big telecom, such as **BCE**, one big energy infrastructure company, such as **TC Energy**, and one big utility, such as **Fortis**.

They are quality dividend stocks that pay generous yields of 3.3%-5.4%. You need to hold the stocks to enjoy the growing passive dividend income and the long-term price appreciation from the growth the businesses provide.

Keep buying stocks

As you find stocks to be attractively valued, it makes perfect sense to invest in them for boosted returns. Particularly, from the stocks listed above, I find Royal Bank to be the best valued.

RBC stock's recent correction of 8% to under $100 per share puts the quality dividend stock at about

11 times earnings. This discounted valuation places an investment in the bank stock today highly in investors' favour with an elevated yield of 4.3%.

Royal Bank's payout ratio is about 46% this year's earnings, which gives an ample margin of safety for its solid dividend.

Last month, Royal Bank reported a strong quarter with adjusted earnings per share rising 11% year over year against the comparable quarter a year ago. The solid results were driven by the strength seen across its diversified business mix, as net income growth was present across all its business segments.

Particularly, RBC's Personal and Commercial Banking segment that contributed to 48% of net income increased 7% year over year. It was mainly due to loan growth that reflected strong residential mortgage growth and deposit growth in Canadian banking.

The Capital Markets segment that contributed to 25% of net income reported net income growth of 35% year over year. It was predominantly due to higher fixed-income trading.

Other than investing in quality businesses like RBC stock, you might also invest in cyclical stocks such as **Air Canada** to aim to maximize total returns. Air Canada trades at about 10 times earnings.

A low valuation coupled with high long-term earnings growth can lead to extraordinary returns that could double your investment in a few years!

Investor takeaway

Value investing works through all kinds of markets.

On one hand, you can hold safe dividend stocks like RBC, BCE, TC Energy, and Fortis after you buy shares at good valuations. This way you can collect never-ending rising passive income.

On the other hand, you'll find that it'll be worth the extra work to trade cyclical stocks like Air Canada strategically by buying at a cyclical low and selling at a cyclical high.

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Date
2025/08/29
Date Created
2020/03/02
Author
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