TFSA Investors: How to Use the Market Crash to Retire Wealthy

Description

The stock market crash of 2020 is providing TFSA investors with their best opportunity in a decade to launch a retirement fund.

Volatility

The TSX Index fell 12% on March 12, representing the worst decline in a single day since 1940. The stunning plunge is the latest in a correction that has wiped out 30% of the market's value in less than a month.

The bear market has certainly returned with a vengeance after the record bull run that occurred in the wake of the Great Recession.

Investors are no doubt staring at their stock screens in disbelief. Years of gains have evaporated in a mere three weeks, and more downside could be on the way.

What's going on?

Investors are concerned the coronavirus could trigger a global recession. The WHO recently declared the situation a global pandemic after the virus moved from China to more than 100 countries around the world. China appears to be past the peak of its outbreak, but other regions are now seeing cases increase at a rapid pace.

Italy, Iran, and South Korea are being hit particularly hard. Travellers from these countries have spread the virus around the globe.

Central banks are cutting interest rates to mitigate the economic impact. The U.S. Federal Reserve and the Bank of Canada cut rates by an aggressive 0.5%. Additional cuts are expected, as the North American economy appears headed for a rough few months.

Fiscal stimulus is also anticipated from the governments to support companies and protect jobs.

Which stocks should you buy?

It takes courage to buy during a market crash. However, investors with a long-term investment strategy can take advantage of the oversold conditions to acquire top-quality dividend stocks at very attractive prices and use the distributions to buy more shares.

Over time, the compounding process can turn small initial investments into a significant wealth fund.

Let's take a look at one TSX Index leader to see why it might be an interesting pick to start a diversified TFSA pension fund.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is Canada's largest bank and one of the top 15 around the globe.

The company reported adjusted earnings of $12.9 billion in fiscal 2019 and a robust $3.5 billion in fiscal Q1 2020. Return on equity was 17.6% in the quarter, and Royal Bank continues to maintain a strong capital position with a CET1 ratio of 12%.

The secret to the bank's success lies in its diversified business lines operating in many locations. Royal Bank has strong personal banking, commercial banking, capital markets, wealth management, insurance, and investor and treasury services operations. Canada accounts for 62% of revenue. The U.S. provides 23%, and international operations add the remaining 15%.

Royal Bank just raised its quarterly dividend by 3% to $1.08 per share. That's good for a yield of 5.5% at the current share price. Royal Bank trades below $79 per share at the time of writing. It was at $109 last month.

The sell-off appears overdone. The price-to-earnings multiple is now below nine, which is very cheap for one of the planet's most profitable large banks.

Long-term investors have done well with the stock. A $10,000 investment in Royal Bank 20 years ago would be worth more than $100,000 today with the dividends reinvested.

The bottom line

History suggests that buying top stocks such as Royal Bank during market crashes can produce significant long-term rewards. The recent sell-off in the TSX Index is finally giving TFSA investors a chance to buy many of the country's best companies for very cheap prices.

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aswalker