This Class of Stock Could Be the First to Rebound

Description

The coronavirus crash has punished dip buyers thus far. Those who bought stocks hand over first when the markets corrected in February were immediately hit with 25% in downside amid one of the worst months since the Great Depression.

The talking heads on TV are no longer using that “R” word (recession) anymore. They’ve brought out the “D” word (depression), implying that the stock market may not recover as quickly as it did during 2009.

In any case, investors should take such dire economic projections with a fine grain of salt. Sure, a Fed official warned that unemployment could hit 30%, which would rival the numbers during the peak of the Great Depression.

And while it’s tempting to throw in the towel on stocks as a whole, the reality remains that nobody knows what’s to become of the world in a post-pandemic era.

Things could certainly get far worse, which is likely the only scenario that you’re likely to see in the headlines these days. But that doesn’t mean all hope is lost and that we won’t see promising developments, like a working vaccine, over the coming months.

As such, one shouldn’t make drastic moves with their portfolios given that stocks have already shed nearly 40% of their value. A recession is already baked in and then some at this juncture.

If anything, one should be a net buyer of stocks, as they could prove to be at bargain-basement prices today if anything short of a depression ends up panning out after the coronavirus is eradicated.

Of course, you’ll need ample liquidity to be a net buyer after such a stock market implosion.

If you were 100% invested in stocks and are now worried about your job security, you'll probably have no other choice but to sell stocks at a huge loss. That's a huge shame, but it goes to show the importance of only investing what you don't plan on using over the intermediate-term — a piece of advice that's often ignored by many investors.

If you've got plenty of dry powder on the sidelines, you should look to areas of the market that could have limited downside as the market continues crashing with no bottom in sight.

It could be too early to try to grab the fastest of falling knives like **Air Canada**, which is already down 75% from the top (the stock halved more than twice!).

It's not too late to play defence with defensive stocks

In a market like this, defence wins championships.

While stocks have already lost 35-40% of their value, it's worth noting that many quality defensive stocks have already sold off amid the panic. I see them as babies that have been thrown out with the bathwater as investors look to raise cash, selling off almost everything, even the safe-haven stocks.

Everything, even bonds, has been toxic recently. Yes, the market may be "broken." But I still see defensive stocks as having the most "obvious" value as most other stocks are now nearly impossible to value.

Moreover, as the markets look to form a bottom (we're probably not there yet), we could see a slow rotation into defensives once the initial wave of panic wears off. The defensive rotation accompanying past downturns may be delayed rather than cancelled.

As such, investors would be wise to look to defensive stocks with safe dividends, like **Fortis**, as they could be among the first to bottom once the selling has been exhausted.

Fortis is only down 21% versus the over 35% decline in the **TSX Index**. But I'd rather have a nice 20-25% discount on a stock I know to be undervalued than a hard-to-value stock whose "discount" may end up being nothing more than an illusion amid today's highly uncertain times.

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