Market Crash: How to Turn $10,000 Into a $275,000 TFSA Pension in 25 Years

Description

The 2020 stock market crash is one of the worst in history.

In a matter of weeks, the **TSX Index** has fallen more than 35%. A bounce in recent days helped reduce the damage, but more volatility should be expected. In fact, many investing pros suggest we haven't hit the bottom.

Buying stocks during such chaotic times takes courage. Most people follow the crowd and dump everything in a panic. It is true that cheap stocks often become much cheaper before they recover. Weak companies with challenged balances sheets might not survive.

This could well be the case in already struggling sectors. Energy, for example, is littered with stocks that are down more than 90% from their 2014 highs. The recent plunge in the price of oil could last for months, and this might be the end of the road for oil producers carrying large debt with no way to boost revenue to cover the payments.

Which top stocks are attractive?

Investors should focus on companies and sectors that provide essential products and services to the economy. Industry leaders with strong balance sheets and long track records of dividend growth tend to outperform once a downturn runs its course. The market crash is hitting stocks across all segments, and some of the damage appears overdone.

Buying top companies during a market crash can result in significant long-term gains. Let's take a look at one top Canadian dividend stock that has delivered solid returns over the years and might be an interesting pick for a TFSA retirement fund.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is Canada's largest financial institution by market capitalization. It is also one of the top 15 in the world.

Royal Bank's profitability is the envy of many of its global peers. Fiscal Q1 2020 return on equity came in 17.6%. Net income rose 11% compared to Q1 2019, hitting $3.5 billion. The bank maintains a strong capital position with a CET1 ratio of 12%. This means it has the capital to ride out a downturn.

The board raised the dividend in February, and the new quarterly payout should be safe through the current economic turmoil. Investors who buy the stock at the current share price of $85 cam pick up a 5% yield.

Royal Bank traded at $109 before the crash and recently slipped below $73, before the strong bounce.

Risks remain for Royal Bank and its Canadian peers. The steep rise in unemployment as a result of the coronavirus outbreak will put severe pressure on homeowners and businesses. Loan defaults will rise, and the housing market could tank if landlords decide to dump properties.

Credit card debt might balloon until the government gets cash to struggling consumers. A lengthy recession could put borrowers in real trouble. Recent financial aid announcements should help reduce missed payments and defaults, but there will be pain for the banks in the near term.

Opportunity

Once the outbreak runs its course and government stimulus programs starting impacting the market, we could see a strong economic boom. This would benefit Royal Bank and its investors.

Buying the shares during a crash has historically delivered strong returns. A $10,000 investment in Royal Bank 25 years ago would be worth more than $275,000 today with the dividends reinvested.

The bottom line

Royal Bank might not generate the same returns over the next 25 years, but the stock should be a solid buy-and-hold pick for a diversified TFSA retirement fund.

The **TSX Index** is home to many top-quality stocks that appear very cheap today.

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