Market Crash: Why You Should Buy Dividend Stocks

Description

A market crash does not necessarily mean that you'll lose all your money. Even when the markets are in turmoil, it is still possible to make money on stocks. For investors facing a declining market, high dividend yield stocks can be a good investment. Dividend stocks are often a safer bet than growth stocks.

Dividend stocks give you a cushion during a market crash

Stocks that offer a high dividend yield can make your money work harder than most other investments. In addition, regardless of the performance of the stock, the dividend provides a recurring return. Therefore, high-yield stocks can be a good place to put your money when the markets are down. This is mainly due to the fact that they are less volatile than other stocks, as investors are more willing to keep these high-income stocks during a market crash.

The total return on a stock is both the amount of its share value and its dividend yield. Let's take **Toronto-Dominion Bank** as an example. The bank stock has a dividend yield of 5.7%. If TD gains 5% in value, the total return to shareholders will be 10.7% (dividend yield + share price appreciation). On the other hand, if TD stock loses value, shareholders will only suffer a loss if the value of the stock drops by more than 5.7%.

When a stock price falls, its dividend yield increases, prompting investors to buy the stock. You must know that to make money with stocks, you need to buy low and sell high. A market crash gives you the opportunity to buy quality dividend stocks at low prices. You will profit from a future rebound while having an extra income while you wait for it to happen.

In fact, it's possible to outperform market indices with high-yield dividend stocks. A strategy known as the "Dogs of the Dow," which involves investing in the 10 highest yielding stocks from Dow Jones Industrial Average (DJIA), has been proven to beat the average. We could apply this strategy to the TSX by buying its 10 highest yield stocks and likely get similar results.

By buying dividend stocks while they are cheap, you can potentially beat other strategies and the average market in a market crash. Warren Buffett has made his fortune by buying quality stocks like **Coca-Cola** at cheap prices.

Do not just look at the dividend yield

But you shouldn't just look at the dividend yield to choose your stocks. You should look at other criteria, such as the history of the stock. Companies with a solid history of stable or rising dividend payments are preferable. Companies with unstable dividend payment histories cannot be relied on to provide the security buffer you are looking for.

It's also a good idea to look at a dividend payout ratio, calculated by dividing the annual dividend per share by earnings per share. A high dividend yield combined with a low payout rate indicates that the company has enough room to keep paying its dividend even when times are tough.

To sum up, high dividend yield stocks can be a great place to invest during a market crash. Doing so can protect your capital to a certain point, as a high dividend yield provides a safety buffer in uncertain markets.

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