TFSA Investors: Where to Invest $10,000 in a Market Crash

Description

The **S&P/TSX Composite Index** gained 568 points on Wednesday, March 25, putting the index on the cusp of a bull market, which would stand as a stunning turnaround after a sharp market crash. However, investors should exercise caution right now.

A violent rebound after a plunge into a bear market should be setting off alarm bells for those with experience. Investors who aggressively splurge looking for the bottom can get hurt in these conditions, falling victim to what traders often call a "bull trap."

Still, if you are fortunate enough to be sitting on some cash in this environment you should consider yourself privileged. This affords investors the opportunity to add high-quality equities at discounts that are hard to come by.

Tax-Free Savings Account (TFSA) investors who take advantage of discounts can scoop up growth stocks with great potential and high-yield dividend stocks at a discount. The best part is that all their gains and income will be tax free!

Many sectors have taken a hit in this crisis, though defence is still reliable. When COVID-19 abates, geopolitical tensions will remain, and nations will be even more eager to bolster their military edge. Today I want to look at two TSX-listed stocks offering nice exposure to defence.

Market crash: Two discount stocks

CAE (TSX:CAE)(NYSE:CAE) is a Montreal-based manufacturer of simulation technologies and training services to the aerospace and defence sectors. Its shares have succumbed to the market crash – having dropped 49% month-over-month as of close on March 25. However, the stock has climbed 21% over the past week at the time of this writing. Still, it's hovering around its 52-week low.

The company released its third quarter fiscal 2020 results on February 7. Revenue rose 13% year over year to $923 million and segment operating income increased 37% to $155 million.

Free cash flow nearly doubled to $275 million and CAE finished the quarter with a healthy $9.4 billion backlog. The defence pipeline remained strong with roughly $3.8 billion of bids and proposals pending customer decisions.

Shares of CAE last had a favourable price-to-earnings ratio of 14 and a price-to-book value of 2.1. The stock also offers a quarterly dividend of $0.11 per share, representing a 2.1% yield.

Heroux-Devtek (TSX:HRX) is another Quebec-based company that services the aerospace and defence markets. Its stock has dropped 44% over the past month at the time of this writing due to the market crash, pushing shares down in the year-over-year period.

In the third quarter, the company saw sales rise 8.8% year over year to $157 million. Adjusted EBITDA increased 7.3% to $22.9 million. Heroux-Devtek's funded backlog climbed to a record-level $839 million – up 9.1% from the previous quarter.

In the year-to-date period, defence sales increased 39.8% from the prior year to $234 million. Commercial sales were also strong, increasing 33.8% year-over-year to $211 million.

This stock also looks like a discount right now. Shares last had a P/E ratio of 11 and a P/B value of 0.8.

Both stocks have climbed out of oversold territory after the latest rebound, but I like them going forward as investment continues to pour into the defence sector.

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1. Dividend Stocks
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2. TSX:CAE (CAE Inc.)
3. TSX:HRX (Héroux-Devtek)

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