Market Crash: Dividend Kings Are Must Buys

Description

Sure, it's tempting to chase the recent bounce in stocks and assume the worst of the market crash is over with. With coronavirus numbers getting worse by the day, however, investors need to realize that stocks aren't out of the woods yet.

While there may be an unprecedented magnitude of fiscal and monetary stimulus that will serve to dampen the coronavirus-induced damage to the economy, we still don't know how effective such stimuli will be. We also don't know if the millions of lost jobs will be recouped promptly once this pandemic ordeal is over.

Market crash tip: Don't pay too much merit to conflicting viewpoints

If you tune into the talking heads on TV, you're likely to hear everything from a V-shaped stock market recovery to an L-shaped one. You'll hear some forecasting a mild, short-lived recession, and others predicting a depression that could rival the one that followed the 1929 stock market crash.

Few things are more predictable than biology. As such, investors should avoid shallow economic or stock market forecasts and concentrate on what one can control, buying stocks of wonderful businesses, like the Dividend Kings, that are priced at a discount to their intrinsic value.

Right now, it's tough to value many stocks that stand to be affected by COVID-19.

The bar on corporate earnings, operating cash flows, and revenues will be lowered over the coming weeks and months. And there will undoubtedly be many positive and negative surprises along the way, depending on how individual companies deal with the COVID-19 crisis.

As such, investors should pick their spots carefully and ensure that their investment thesis doesn't solely depend on a near- to intermediate-term prediction of how bad the pandemic will be and how much economic devastation will be left behind.

Stock market crash: Buy wonderful (and resilient) businesses at wonderful prices

Consider shares of companies that are severely undervalued, well capitalized, and have dividends that aren't going to be slashed to bits should the worse come to worst.

The devastation left behind by pandemics are nearly impossible to predict with any degree of precision. So, you're going to need to look to the stocks of companies that can provide assurances through an environment that could be as bad as during the depression.

In a worst-case scenario (a depression with an L-shaped recovery), there are likely to be many bankruptcies, dividend cuts, and tarnished business models. You're not only going to want a wide margin of safety, but an assurance of dividend stability, a strong balance sheet to survive the economic onslaught, and a business model that's stood the test of time — all traits of a Dividend King.

Market crash: All hail the Dividend Kings!

Consider Canadian bank stocks, like **Bank of Montreal** (TSX:BMO)(NYSE:BMO), which have been through their fair share of crises. This isn't the first time BMO has crashed around 50% from peak to trough, and it's not going to be the last time. The bank is a Dividend King that's been paying out dividends since 1829 — a streak that's not going to end anytime soon.

The bank is well capitalized with a balance sheet that's so strong that it can survive whatever recession or depression this pandemic leaves behind. Sure, there will probably be more tumultuous times up ahead for BMO and its peers, as the stock market crashes further. But in the grander scheme of things, you're more likely to bag a generational bargain with a Dividend King and minimize your chances of regretting it 10 years down the road, regardless of what ends up happening to the economy.

At this juncture, almost everyone is already aware of the seemingly insurmountable headwinds that face the banks. Bad loans are mounting. Provisions are skyrocketing. Restructuring is necessary. Margins are thinning. And loan growth is going to be hard to come by.

Foolish takeaway

When the market crashes, everything falls back on the banks. And that's why BMO and its peers have led the downward charge.

With nothing but negativity baked in, BMO stock is the most undervalued it's been since the 2007-08 stock market crash, leaving a nice margin of safety (and a 6.3% yield) for those who care more about investing for the next 10 years and not the next 10 days.

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