Market Crash Alert: Buy Dollarama (TSX:DOL) Stock Now!

Description

Since the start of the COVID-19 market crash, **Dollarama Inc** (TSX:DOL) stock has consistently outperformed the **TSX.** Down only 5.7% in that period, it has fallen far less than the average stock. While that might not seem like a huge compliment, such is the market we find ourselves in. With the TSX down 28% since the crash began, almost all stocks are in the red.

For Dollarama, at least, that reality might prove to be short-lived. As a discount retailer providing essential services, it's perfectly positioned to thrive in today's economy. Its business is exactly the type that can survive an economic downturn, and its shares were getting cheap before the contagion began.

If you buy Dollarama stock today, you should see your shares outperform for the foreseeable future. The following are two reasons why:

Discount retailers outperform during recessions

During recessions, discount retailers tend to outperform the markets. When a recession hits, consumers become more price sensitive and seek lower-priced alternatives to items they already buy. As one example of this phenomenon, we can point to shares of **Dollar Tree,** which rose 200% during the 2008/2009 financial crisis.

Another example we can look to is **Wal-Mart**, whose earnings increased in 2008 and 2009. Both companies carry low-priced items, many of them staples such as groceries and kitchenware. This is a major advantage during a recession, when consumers become more price sensitive.

What's true of Dollar Tree and Wal-Mart is also true of Dollarama. As Canada's biggest dollar store chain, it has some of the lowest prices available on packaged grocery items.

You can't buy grade AAA steaks at Dollarama, but the items you can buy–noodles, rice and canned food–are cheaper than anywhere else. This will benefit DOL if the market crash we're now witnessing turns into a full-blown recession.

Dollarama is able to stay open

Another factor Dollarama has going for it is the simple fact that it's allowed to remain open. Thanks to the grocery items it carries, it's considered an essential service.

This is a huge advantage at a time when swathes of the economy are being shut down. Industries like airlines, hotels and resorts are practically non-operational right now. Companies like Dollarama that can continue operating as usual therefore have a short-term advantage. Of course, this won't last forever.

When the public health crisis passes, most companies will be able to return to business as usual. Once that happens, Dollarama's edge will evaporate. However, it should last for as long as most of the economy remains shut down.

Foolish takeaway

Dollarama hasn't been the best-performing TSX stock in recent years. Having saturated the domestic market with over 1,000 stores, it has little room to grow. However, it could be a solid defensive play during a recession.

With the unemployment numbers we're seeing now, a downturn is looking likely. So, DOL should outperform the TSX.

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