Market Rally: A Top Dividend Stock to Help Self-Directed Investors Retire Rich

Description

The stock market crash quickly turned into a market rally. In fact, at the time of writing, the **TSX Index** already bounced 28% off the March 23 low.

Top stocks

Investors with cash on the sidelines are now wondering which top stocks might be interesting picks for a self-directed RRSP or Tax-Free Savings Account (TFSA) portfolio.

Catching the bottom is nearly impossible. We never know when the bottom occurs until well after it is clearly in place. Riding the rally higher, however, is generally an easier play to make.

The market conditions continue to be scary, and there's no guarantee we are out of the woods. Businesses remain shut and lockdowns appear set to continue in Canada until the end of May in most provinces.

The market, however, always looks forward. With unprecedented government stimulus flowing to companies and consumers, the potential exists for a strong economic recovery in 2021.

A quick look at major historical crashes suggests that this might be a good time for buy-and-hold investors to put money to work and stay ahead of the next surge.

A popular strategy involves buying top dividend stocks that are on sale and using the distributions to add new shares. Any additional downside in the stock works in your favour to average down the cost. When the recovery kicks in, you then get a shot a nice capital gains.

When funds are held inside a TFSA or RRSP the CRA can't touch the distributions or capital gains. Withdrawals from RRSP accounts are taxed. TFSA gains go straight into your pocket, bypassing the CRA altogether.

Let's take a look at one top dividend stock that appears cheap right now and deserves to be on your radar.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSR:RY) is Canada’s largest financial institution. It’s also among the top 15 in the world.

The stock traded at $109 per share before the crash, hitting a closing low near $72 during the March chaos. A rebound has it back to $86. This is still quite cheap, and Royal Bank now provides a 5% dividend yield.

Upside

Royal Bank will see defaults surge in the coming months. In fact, investors should prepare for rough fiscal Q2 and Q3 2020 results. Nonetheless, the company has the capital strength to ride out the storm.

Royal Bank came into the current crisis with a solid CET1 ratio of 12%. In addition, the business is very profitable and revenue comes from a broad base of activities and geographic locations.

The Canadian government is buying up to $150 billion in mortgages from the Canadian banks to boost liquidity and encourage them to keep lending. Fees from acting as an agent for the government’s distribution of aid to thousands of businesses will help.

Mortgage deferrals will hit the current revenue stream, but Royal Bank eventually gets the money, as well as the added interest, as long as the borrower doesn’t hand over the keys.

The coronavirus peak is likely behind us in Canada, which means governments will start to put measures in place to open the economy and get people back to work. If meaningful progress is made by the end of the summer, we could see an economic rebound start as early as the fall of 2020.

The International Monetary Fund anticipates strong economic growth in Canada and the United States in 2021, boding well for Royal Bank and its shareholders.

Long-term investors have done well with the stock. A $10,000 investment in Royal Bank 20 years ago would be worth nearly $100,000 today with the dividends reinvested.

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