New Market Rally: Turn $5,000 Into $100,000!

Description

Buying stocks right after a market crash is not easy.

We never really know when the final bottom has occurred until the next market rally is clearly in place. By that time, however, much of the upside opportunity is already in the rear-view mirror.

Beyond the outbreak

The 2020 market crash hit hard, wiping roughly 35% of the value of the **TSX Index** in a matter of weeks. The market rebound off the March low is now starting to look like it might have legs, and the recovery could be substantial through the end of next year.

The pandemic continues to work its way around the world, but there are signs of optimism. China is already starting to re-open its economy. Europe, the United States, and Canada appear to be past the peak. In the coming months, lockdowns should be slowly lifted and businesses can start getting back on track.

Drug companies are testing treatments and starting vaccine trials. A breakthrough medication to treat seriously ill coronavirus patients will go a long way to helping the world get back to normal. A vaccine could be ready by next summer.

Risks certainly remain. A second wave would potentially force a return to lockdowns. This would be a disaster for the economy, as governments are already throwing unprecedented funds at the pandemic to keep households solvent and businesses alive until the current lockdowns end.

Nonetheless, the potential for an economic boom and a new extended market rally once the pandemic passes can’t be ignored.

New market rally

The IMF predicts the global economy will contract by 3% in 2020. A strong rebound is then anticipated for next year. The massive stimulus measures combined with record-low borrowing costs should support significant economic expansion. The result could be a new rally that takes the Canadian and U.S. stock markets back above the 2020 highs.

Investors get a chance to buy top-quality stocks at heavily discounted prices about once every 10 years. The current crash could be the investing opportunity of a lifetime.

Let's take a look at one Canadian dividend-growth stock that has delivered strong long-term gains and has proven to be a top pick when the stock market tanks.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) serves an essential role in the smooth operation of the Canadian and U.S. economies. The company transports roughly $250 billion in cargo each year. Forestry products, auto parts, crude oil, grain, fertilizer and finished goods all make their way from producers and suppliers to domestic and international customers using CN's rail network.

CN has an interesting competitive advantage. The company is the only rail carrier with tracks connecting ports on three coasts. In addition, the business generates revenue in Canada and the United States, providing investors with a chance to benefit from U.S. growth through a Canadian stock.

The current economic slowdown will hit CN's 2020 results, but the stock already reflects the anticipated setback. Assuming the Canadian and U.S. economies can re-open and get back to business by the end of the year, the stock should quickly recover the recent losses.

CN generates solid free cash flow and uses it to reward investors through dividend hikes and stock buybacks. The compound annual dividend growth is about 16% since 1996.

Bargain hunters that bought the stock at the March closing low near $96 are already sitting on decent gains. At the time of writing, CN trades for $108 per share. That's still well below the February high above $127.

Long-term investors have enjoyed great returns. A $5,000 investment in CN just 20 years ago would be worth more than $100,000 today with the dividends reinvested.

The bottom line

CN is just one stock in the **TSX Index** that should benefit in a new market rally and remains an attractive pick for a self-directed retirement fund.

A number of other top companies with strong track records of rising earnings and dividend growth also appear cheap right now.

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