Forget the Market Rally — It Won’t Last

Description

Since the middle of February, **TSX** stocks have been on a wild ride. First, stocks were sold off at an unprecedented pace. Then, almost as fast as the market initially sold off, it started to rebound and rally considerably.

All of this has happened despite much change in our current economic environment. Stocks initially sold off due to the unknowns of coronavirus, however, many of those unknowns are still present. Furthermore, the selloff was aided by uncertainty around oil market issues, and a lot of those remain unresolved as well.

So how can the market rally?

What caused the market rally?

Although coronavirus and oil were the underlying issues, what really caused the shock was a liquidity shock and a rush to cash.

Whether investors had little cash and needed to sell stock to raise their cash position or whether they were liquidating stocks to build up an emergency fund ahead of this uncertainty, as fear in markets hit, cash became the most attractive asset.

However, there was no imminent fear or businesses collapsing, and long-term investors pounced on major deals, giving stocks a little momentum.

What to do from here?

Just because it’s likely that the worst of it isn’t over for stocks doesn’t mean we should go out and sell all our positions today. We still need exposure to the upside just in case the market does rally from here.

However, we should use this opportunity to make sure our portfolio is as robust as it can be. It's crucial we don't have too much exposure to high-risk stocks.

Also, we are going to want to make sure we have an adequate amount of cash. This way, we can be ready to take advantage of any major deals, should stocks sell off again.

Finally, it wouldn't hurt to add some defensive stocks, like a utility company such as **Hydro One** (TSX:H).

Hydro One is an electric utility company in Ontario that provides transmission and delivery services. Because it's a utility that provides essential services, the stock is one of the most reliable companies on the **TSX**.

Not only is it still operating in our current environment, but even in a typical recession, demand for electricity is very inelastic.

This gives Hydro One considerable stability, earning regulated revenue, which helps keep its current 3.8% dividend extremely stable.

That dividend had a payout ratio of just 75% in 2019, so there is a significant margin for error. At roughly $25.50 a share, there is still some upside in Hydro one stock. That said, an investment in Hydro One is more about protecting your capital. Plus, it will return you a near 4% dividend as well.

When will the market rally?

There's no crystal ball that can tell us when the market will begin to rally. However, there are some factors we will need to see first before investors have the confidence necessary for a market rally.

Factors such as better long-term clarity not only when the economy will reopen fully for good, but also what state the economy is in.

Until then, with all this uncertainty, stocks are still at risk of another significant pullback.

Bottom line

Although volatility has temporarily declined, it hasn't completely disappeared. Thus, investors should proceed with caution over the next few months.

It's important to be ready for anything. So if the market crashes, your portfolio is protected, and you have the cash to buy stocks. But if the market does rally, you're already in a position to take full advantage.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

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