Stock Market Rally: Time to Buy Stocks?

Description

The North American stock market rallied from its March lows. Is it time to buy stocks?

If you're like most Canadian stock investors who have a big portion of their investment portfolios in Canadian or U.S. stocks, you'll be asking this question.

Here are some questions for you to answer to help you decide whether to buy stocks or not today.

Stock market rally: What's your investment horizon?

Will the stock market rally continue? This year will likely be a volatile year for stocks. Whether the stock market rallies or crashes from here depends on the direction the COVID-19 situation goes.

If the virus is contained or vaccines are ready before the year ends, investor confidence will improve, and the stock market could rally.

If you have an investment horizon of only one year or so, it's a total gamble on the stock market's quick recovery. That's very risky. You risk losing a big part of your principal if you need to get out of the market within the year.

If you have an investment horizon of at least three to five years, you give a much longer time for the stock market rally to take place. There's a greater probability that by then, the COVID-19 situation will be resolved and the economy will be well on its way to recovery.

Are you an income investor?

A stock market rally or crash doesn't matter for income investors. If the particular stocks you're looking at are income focused — that is, a big part of returns come from the income they generate — you can consider nibbling.

For example, if you like the safe income provided by **TD** stock, **TELUS**, or **Fortis** dividends, you can consider nibbling. They offer yields of 5.9%, 5.2%, and 3.6%, respectively.

I say “nibble” on the stocks, because this year’s exuberant market volatility can provide a better average cost for you if you space out your buys and buy the stocks a bit at a time.

When you’re focused on safe income, you don’t care if the market rallies or not. After all, you need to hold the shares to receive the income.

Stock market rally: What’s the *normal* stock valuation?

Never mind a stock market rally. Many stocks are hit in the stomach by COVID-19. Investors should look past this COVID-19 period and focus on what a stock (the underlying business) is worth in a normal market.

Of course, you also need to consider only the companies that can survive this downturn, are characterized by solid balance sheets, and have staying power.

For example, the market capitalization of many REITs, including **RioCan** and **H&R REIT** were cut dramatically. RioCan stock lost about 45% of its value, and H&R REIT lost 58%. Their sky-high yields are now reaching 9.7% and 15.8%, respectively.

Tenants delaying or not paying rents can cause these stocks to cut their cash distributions. However, their real estate empire is still very valuable, and when the economy returns to normal, they’ll ride on the inevitable stock market rally and restore their cash distributions (if they end up cutting them in this period.)

The Foolish takeaway

If you have an investment horizon of at least three years, you can consider nibbling stocks by spacing out your buys through 2020. You’re in a good position if you focus on businesses that offer safe income.

Additionally, be rational about what a business is *really* worth in a normal market. Buy businesses with staying power, and you can grow massive wealth and income!

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