Stock Market Rebound: Don't Fear Bank Stocks

Description

Canadian investors are looking for safe stock market investments in which to grow their retirement savings. You might think it is a bad idea to buy financial stocks in a recession. However, the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is your best buy while the market is down.

Bank stocks might seem risky, but very few stocks can beat Canadian dividend power players like RBC. Thus far, in 2020, RBC's stock price is only underperforming the **S&P/TSX Composite Index** by a smidge. RBC is down a mere 16.18% this year, 2.91% more than the index.

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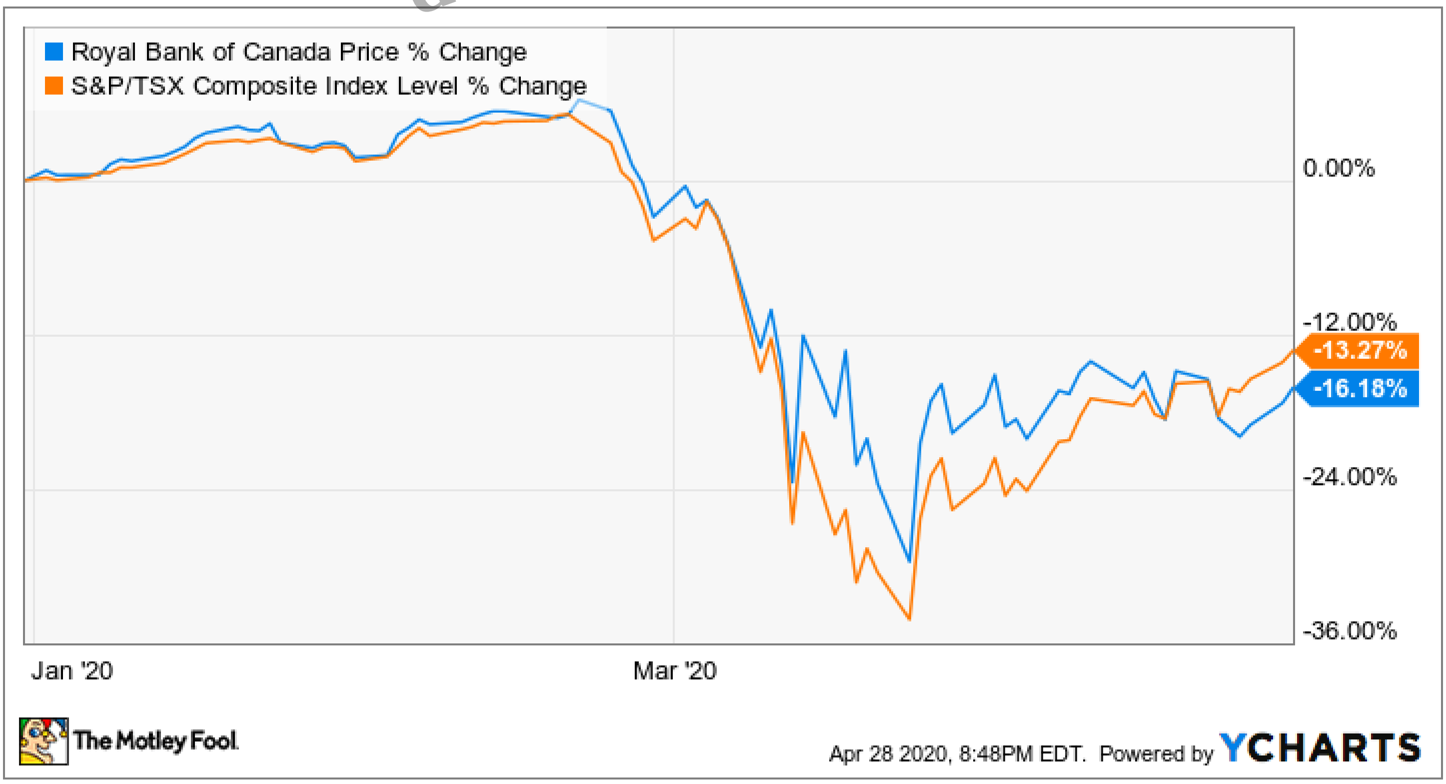

Times of crisis, like in the age of COVID-19, bring short periods where the bank might underperform the index. Nevertheless, RBC stock tends to outperform the index. Thus, this stock is still a stellar buy for your retirement portfolio.

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RBC's stock price has performed overwhelmingly better than the index over ten years. Except for a short period during the financial crisis, RBC stock has generally either matched or exceeded the returns of the **S&P/TSX Composite Index.**

Even after the precipitous decline in stock prices at the onset of the coronavirus crisis, RBC stock is still up 40.28% from where it was during the financial crisis. If you had purchased RBC stock in 2010, you would still be bragging to your friends about your good investment decisions. By comparison, the S&P/TSX index is only up 21.83% over the same time period.

A reliable dividend stock with a solid history

Many stocks are cutting dividends along with their forecasts, but not RBC. In fact, RBC announced a 3% increase to its dividend on February 21.

Investors will be looking for strong dividend payers like RBC to protect and grow their retirement savings during this difficult time. RBC is one of those stocks that long-term savers will be buying this year. Now is the time to purchase the stock while it is trading at a discount.

As of Wednesday, RBC stock was trading for $87.84 per share. You can buy a 100 share position in RBC for $8,784. After purchasing 100 shares of RBC, you will also be eligible to sell a May 15 $89 covered call option for around $1.01 per share, or $101.

With those proceeds, you can then turn around and insure your investment by purchasing a May 15

$84 put option for $0.95 per share. You will earn $6 on the call-put premium spread and insure your long stock position if RBC's market value drops below $84. The put option will guarantee that you don't lose more than $384 on your investment, or 4.37%.

Unfortunately, the call option will cap your returns at $116, or 1.3%, if exercised. But, don't worry! These small wins add up. Plus, you can always turn around and purchase more stock in RBC if the buyer of the call option exercises their rights to the stock.

Foolish takeaway

There is no good reason to sit on cash during the Covid-19 market volatility. There are many ways in which you can reduce your risk and still make money during the bear market.

Recession or no recession, you shouldn't put off growing your retirement savings just because the stock market took a dip this year.

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