Coronavirus Recession: Should You Sell Your Stocks Now?

Description

Up till the start of 2020, the stock market was doing very well. Who would have thought that there would be a coronavirus-triggered recession and market crash in 2020?

Actually, COVID-19 was just a trigger for the market downturn. High debt at government, corporate, and personal levels already existed before COVID-19 arrived at the scene. There are other problems that can prolong the length of the market downturn. The gross domestic product is getting slaughtered. Moreover, stock valuations are at an all-time high.

There are different ways to look at this. Some investors might opt to sell their stocks now, while others might buy or hold. I'll argue for both sides below.

Coronavirus recession: The case to sell stocks now

In a recession, the economy and most companies are going to report bad numbers. *Trade Economics* forecasts that the GDP growth rate in Canada for Q2 and Q3 are expected to be -3% and -1.5%, respectively. It also forecasts that it will be worse in the U.S. with the rate being -17%, -3.6%, and -3%, respectively, in Q2, Q3, and Q4.

As a result, some investors might choose to sell stocks now, as they expect stocks to go lower in the short term, at which time they can buy shares at cheaper prices.

Coronavirus recession: The case to buy or hold stocks now

When I say "buy stocks now," I really mean to space out buys through 2020. Over the next six months or so, investors will probably be able to buy stocks at cheaper prices.

I’m inclined not to sell out of all my stocks. The stock market generally goes up in the long run, and you’ve got to hold shares to participate. Besides, most of my holdings pay dividends. The point of holding these dividend stocks is to generate passive income.

On one hand, I love receiving dividend paycheques. On the other hand, I also trade certain stocks for short-term price gains.

Investors need to be true to themselves. They should know why they buy a stock in the first place and have exit strategies if applicable.

Generally, though, stocks are long-term investments. If you aim to buy and sell quickly (say, within a year), that adds excess risk. The longer you hold a stock, the longer you give the underlying business to do its work. Just make sure you do the stock picking right, including choosing quality businesses.

Are stock valuations high?

Stock valuations will be temporarily high for the companies that will report lower or negative earnings this year.

For example, as a bank, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is highly sensitive to economic boom and bust. In the last decade, the bank experienced greater growth than its peers due to its greater exposure to the U.S.

However, in this downturn, interestingly, TD’s more substantial exposure to the south of the border is a drag on its results. The bank is estimated to report roughly 11% lower in adjusted earnings per share this year.

As a result, TD stock trades at last year’s price-to-earnings ratio (P/E) of 8.5 but an estimated (more expensive) 2020 P/E of 9.6. Additionally, the medium-term growth for the North American bank is expected to be markedly lower than its longer-term target of 7-10%.

In the future, when economic and TD’s growth resume to normal levels, this temporarily high valuation will come down again as earnings rise. Moreover, in most years, TD’s exposure to the U.S. should help boost its earnings.

The Foolish takeaway

Investors should consider what individual stocks (i.e., businesses) are worth in a normal market instead of being too hung up on the short-term, gloomy results. Also, be very clear on what to expect from each investment.

If you have a long-term investment horizon of five years or longer, it should be a good investment opportunity to buy through the coronavirus recession this year.

In terms of TD, I think it'll make a great long-term dividend investment if investors buy it on dipsthrough 2020. It has good coverage of its dividend, which yields about 5.5% at writing. So, it pays youto wait for the North American economy to recover.

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