TFSA Users: 3 Strong Signals That a Market Rally Is Moments Away

Description

The Toronto Stock Exchange (TSX) is showing resiliency lately and boosting investors' confidence. Canada's main stock market index rose to the occasion on April 28, 2020, as it opened to a seven-week high. Since falling to 11,228.50 on March 23, the TSX climbed 31.8% to close the trading day at 14,798.30.

It appears the stock market is starting to recover from the damaging effects of COVID-19 and plunging oil prices. From doom and gloom, Tax-Free Savings Account (TFSA) users must be feeling upbeat now. There are strong signals a huge market rally might be moments away.

Peak acceleration

Many remain skeptical about the TSX extending or sustaining gains. The mood is better now, but some are not prepared to trust the stock market yet. Historically, wild swings occur before a steady upward trend develops. The TSX is still down 13.3% year to date, although the index has pared the losses from the March 23, 2020, crash.

A sustained recovery is possible once the peak of the coronavirus outbreak is reached. Health officials in Ontario believe the peak must have been reached already. Their best-case scenario is starting to unfold.

The projections were 80,000 cases, with measures in place, by the end of April. However, the actual number is only 20,000, which is substantially lower. Public health intervention, along with widespread compliance with social distancing, is accelerating the peak.

Easing lockdowns

Two provinces with the most cases are successfully controlling the community-based spread of the virus. Ontario and Quebec are planning to unveil detailed plans to re-open their locked-down economies. The timeline, however, is still to be determined.

Other provinces could follow soon and design their frameworks for re-opening. When the easing of lockdowns happens, there would be a semblance of normalcy.

Continued federal support

A strong recovery strategy hinges on federal government support. Whether businesses fully or partially resume operations, they shouldn't be cut off from government assistance. Likewise, the approach to restarting the economy should be gradual and in phases.

Investment for TFSA users

As the market attempts to return to pre-coronavirus normal, TFSA users should be cautious in choosing investments. The big banks are not only havens but generous dividend payers, despite the pandemic. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) should be a top-of-mind choice.

The shares of the largest bank in Canada are still trading at a discount. At $86.13 per share, RBC offers a 5.13% dividend. In the banking circle, RBC has the highest market share in many areas. This $122.65 billion bank leads the way in business loans, credit cards, personal lending, and business deposits.

Aside from its market leadership position, RBC boasts an awesome dividend track record. The bank has been delivering passive income to long-term investors for 150 years now.

The dividends should be safe considering that RBC's 10-year average payout ratio is a low of 48%. Even COVID-19 won't force the bank to wreck its unblemished record.

Watch the signals

TFSA users should be mindful of the signals. You can ride on the momentum when the TSX regains traction. Hopefully, the market won't be as crazy anymore as it was when COVID-19 was declared a pandemic.

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Date
2025/08/22
Date Created
2020/05/07
Author
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