



## 3 Qualities That Make TSX Stocks a Buy Today

### Description

Once again, the stock market has reminded us that long-term investing is one of the top investment strategies. If you were buying **TSX** stocks in mid-March as markets were crashing rapidly, you've most likely done very well for yourself.

The old [Warren Buffett](#) saying, "Be fearful when others are greedy, and greedy when others are fearful," once again proved to be spot on.

The markets in late February and early to mid-March had seen more fear than any time in the previous decade, causing stocks to fall rapidly over the course of just one month.

However, for those investors who saw that fear and chose to buy, the results speak for themselves. Since the bottom of March, the TSX is up roughly 40% and the **S&P** is up almost 50%.

This has no doubt been a great time to buy stocks, but as the market starts to approach its highs again, vulnerabilities are starting to creep back into the market.

And with a tonne of economic uncertainty lingering, investors need to be mindful of exactly what they are buying.

Here are three qualities TSX stocks must have to be considered a buy today:

### Defensive or essential business

First and foremost, in this environment, you want to be buying defensive stocks or TSX stocks with defensive business models.

This will be crucial if we head into recession. It will also be extremely important if we get a second wave of [coronavirus](#) that was just as bad — or worse — than the first.

Essential businesses will continue to be some of the top performers during this pandemic, so finding

businesses that will experience little or no impact from coronavirus is crucial for investors.

A TSX stock like **Algonquin Power and Utilities** is a perfect example. Not only does it receive regulated revenue from its utility operations, but its power generation segment is underpinned by long-term power purchase agreements, thereby ensuring that the business is highly insulated from economic issues.

## **TSX stocks with a strong financial position**

While defense is the most important thing to look for, it isn't the only crucial quality. During times of heightened risk, financial position and liquidity becomes a crucial factor as well.

When economies are performing poorly and there's a lot of uncertainty, credit markets can dry up, making it very difficult for businesses to find cash.

It's vital that any potential business you're considering buying has adequate liquidity and a strong enough financial position to handle any short-term issues.

Liquidity levels, debt size, debt maturity dates, any impacts to its cash flow in the short-term as well as its ability to fund its dividend are all factors to consider before pulling the trigger on a new investment.

It's also worth noting that financial position is not just important for downside protection, but also for potential growth opportunities. Companies with more liquidity and cash can take advantage of potential opportunities while they are cheap.

## **Significantly undervalued TSX stocks**

In this market, if you're looking for quality and defensive companies, you may be tempted to overpay. Many of the highest-quality TSX stocks have been the best performers in the last few months.

This makes sense as investors rush to stabilize their portfolio ahead of a likely recession. The problem is that with all these stocks performing so well; investors don't wasn't to overpay for defense.

It's therefore important to find high-quality TSX stocks that continue to offer significant value.

It's one thing to load your portfolio up with defensive equities. However, that doesn't take advantage of any other high-quality business trading well below value.

Furthermore, as we have seen a rapid rally in the last few months, investors will want to have some exposure to cyclical value stocks; this rally has lasted longer than many people expected.

## **Bottom line**

The current environment is one of the best opportunities to buy stocks, as long as you are buying the right ones. It's not enough just to buy any stock that's undervalued.

Investors need to know what they are buying, so make sure to do considerable research before you

buy, and look for these three crucial qualities.

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