Where Should You Invest Your $2,000 CERB?

Description

If you're one of many eligible Canadians who's fortunate enough to be in a spot to invest excess amounts of your $2,000 Canada Emergency Response Benefit (CERB), you may wish to be cautious, as the recent bout of stock market momentum is not going to last forever. The bears think that valuations make absolutely no sense given the uncertainties and risks brought forth by the coronavirus pandemic.

There's no question that there's been a divergence between economic fundamentals, which stink, and the stock market, which has been on an unprecedented run over the past few months. Whether the divorce between the markets and the economy will last is anyone's guess. The U.S. Federal Reserve made it clear that they've got more tools (such as negative interest rates) to put to work should worse come to worst with COVID-19. But that doesn't mean stocks are immune from falling into another correction.

Yes, central banks have our back as investors. But you need to remember those market corrections are only healthy, as the froth is taken off the top of markets that have gotten a bit too ahead of themselves. And in such modest declines, the Fed is unlikely to jump in and announce new stimulatory measures. They're just there to avert a disastrous panic-driven meltdown, not against those garden-variety corrections.

Understand the risks involved with investing your CERB benefit

So, back to the CERB. If you've decided that you're going to invest the entirety of a $2,000 monthly amount, you should take a step back. You'll owe taxes on that CERB payment, so you should set a portion aside that'll just sit around in cash. The rest you can invest, but only if you're actually going to invest for the long run and are not euphoric over the market momentum that looks to have been driven primarily by beginner investors and retail speculators.

Given the coronavirus pandemic has blurred the lines between what's an investment and what's a speculative gamble, it's vital to make sure that you're making a sound investment and are not risking your shirt on a spin of the roulette wheel. With casinos closed and sports on pause, many folks have taken to the stock market to get their fix. As such, it's wise to avoid playing the game of greater fools with severely overvalued stocks like **Tesla** (even Elon Musk noted Tesla stock has gotten too high) and gravitate towards sound investments that are known to be trading at discounts to intrinsic value.

Getting ahead of the CERB

Consider shares of **Fortis** (TSX:FTS)(NYSE:FTS), a boring utility that provides certainty in a market where uncertainty reigns. What you see is what you'll get with the "bond proxy" stock: a 3.8% dividend yield that'll grow at a mid-single-digit rate annually, and a stock that won't swing nearly as wildly as the broader market indices.

Fortis may see some growth projects be delayed, but its dividend-growth policy isn't going to be at risk. The company's highly regulated operating cash flow stream is too robust, and it'll remain robust, even if a worst-case scenario ends up happening and we go years without an effective coronavirus vaccine.

Fortis isn't a growth king by any means, but for a behemoth-sized stalwart with a plethora of stable assets, Fortis is outgrowing its peer group. Today, the stock trades at 13.8 times trailing earnings and 1.3 times book, both of which are considerably lower than the stock's five-year historical average multiples of 18.6 and 1.5, respectively.

Foolish takeaway

FTS stock is cheap and is the epitome of a sound investment that you may want to invest with any excess CERB amounts. If you're going to invest your latest $2,000 CRA payment, ensure you're accounting for taxes and are not in a position to be forced to sell your investment at some point soon.

Stay hungry. Stay Foolish.

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