



Why the Best TSX Stocks Get Better Through Recessions

Description

By now, most investors know that one of the easiest strategies to compound your money is by investing for the long term. This consists of buying the highest-quality **TSX** stocks and owning them for the long haul.

In theory, investors should be buying stocks when they are cheap and holding them for years, as they grow and compound in value.

When you think about buying a stock when it's cheap, it makes sense that one of the best times to buy stocks is during bear markets and recessions.

Investors who are savvy, have a long-term mindset, and a cash position ready for bear markets are likely to be the most rewarded. This is the exact same when it comes to TSX stocks.

The best TSX stocks

The best TSX stocks will be able to grow through a bear market for a few reasons. First off, businesses with a diversified or defensive business model should be able to withstand headwinds better than others.

Having robust operations is key to continue to earn free cash flow, despite a negative economic backdrop.

Other important qualities that the best TSX stocks have include significant margins, competitive advantages in their industry, and excellent financial positions.

There aren't many TSX stocks that have all these qualities. However, those that do will continue to be the best investments to hold for the long run.

One quick way to see how strong a TSX stock is today is to see what it's doing with cash.

A good test to see which TSX stocks are best

There are stocks that are raising or saving cash to deploy on distressed businesses. Then there are stocks that are raising or saving cash just to survive the pandemic.

This time, due to the pandemic, it's a little different, as some high-quality businesses are being impacted and can't do much about it. However, for the most part, this theory will hold true in every recession.

One TSX stock that's proof of this is **Brookfield Asset Management**. Brookfield is one of the top-performing stocks over the last decade.

Since the bottom of the last market crash, Brookfield is up by more than 500%, including the pullback it's seen from coronavirus. In fact, the stock grew so fast that investors who'd bought in the last market crash would have [doubled their money](#) within the first two years of owning the stock.

One way it has achieved such high returns is by making incredible investments in distressed companies. And when it does this at a time when there isn't competition from other companies, and cash can be borrowed for extremely cheap, the company is bound to make a fortune.

So, during market crashes, you have the chance to buy these high-quality businesses while they are undervalued. And, at the same time, these businesses are increasing their own long-term potential by investing in other undervalued businesses.

Another example of a high-quality TSX stock is **Alimentation Couche-Tard**. Couche-Tard's business is robust, its balance sheet is strong, and its free cash flow generation should remain positive through the pandemic.

Plus, the stock has traditionally gotten a lot of its growth through acquisitions. This makes this pandemic the perfect opportunity for high-quality stocks like [Couche-Tard](#) to find its next target.

Bottom line

Although this pandemic is different from other market crashes and recessions, there are several high-quality TSX stocks that will use this opportunity to grow.

The only difference is that some high-quality stocks may not make the list this time around, as they are being impacted by the coronavirus. However, because they are being impacted, you would want to avoid those stocks anyway.

This way, you only stick to stocks with strong outlooks from here and the potential to continue to grow well into the future.

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