Market Crash: Build a 10% Dividend Portfolio

Description

We all know market crashes are a great time to buy **TSX** stocks. Most investors assume that the most gains to make buying in a market crash is capital gains. And while this is true, there is a significant opportunity for dividend investors too.

As stocks are sold off, the corresponding yield rises by the same amount. So in a market crash, if a stock were to fall by 50%, its dividend would double. The important thing to keep in mind, however, is that often yields rise because investors see more risk to the stock.

So you don’t want to make a mistake where you buy a dividend stock for its high yield, and then the company is forced to trim or suspend the dividend.

This is why it’s important to know which dividend stocks are robust and can survive headwinds before the market crashes. This way, you can act swiftly and lock in the high yield while the stock trades at bargain prices.

For example, during the last market crash, **Pembina Pipeline**, a high-quality TSX energy infrastructure stock, was sold off by nearly 70%.

This would have seen its dividend yield peak at 16.5%, and savvy investors would have been ready. In reality, though, any investor who bought for less than $25.20 per share, would have bought it at a price with a yield of 10% or more.

These are the investments that could make you a fortune in the long run.

Here are TSX stocks with reliable dividends to keep in mind the next time the market crashes.

Top TSX stock to buy in a market crash

Enbridge Inc (TSX:ENB)(NYSE:ENB) is similar to Pembina; however, I would argue its dividend is even more stable.

Both companies have strong assets, significant competitive advantages, as well as diversified operations. However, Enbridge takes it a step further, and its competitive advantages far exceed any of its peers.

In fact, Enbridge's dividend is so stable one of the only targets from its 2020 guidance that management didn't withdraw after the pandemic hit was for distributable cash flow (DCF).

This guidance has Enbridge earning, at the very minimum, $4.50 this year in DCF. That, in comparison to its $3.24 annual dividend, leaves the stock with a maximum payout ratio of 72% this year, which is extremely reliable.

For investors, the stock is a buy today. However, if the market was to crash and the stock fell further, I would definitely be adding more. On top of that, shares would only have to fall to $32.40 for investors to lock in that 10% dividend.

Another factor that makes Enbridge so attractive is its constant dividend growth. This is important, because as your portfolio increases in value, if your dividends stay the same, your yield will decrease.

Royalty stock to watch in a market crash

A second stock to consider for investors would be **Pizza Pizza Royalty Corp** (TSX:PZA).

Pizza Pizza is in a slightly different situation than Enbridge. The stock has been fairly impacted by the coronavirus pandemic. I say *fairly* because it's seen a bigger hit to business than Enbridge has, however, its seen one of the smallest impacts of any companies in its industry.

The impact forced management to proactively trim the dividend to shore up cash during the worst of the shutdowns.

However, as economies reopen and sales start to revert back to the norm, Pizza Pizza could soon raise its dividend again. So I would consider buying it in another market crash.

Today the stock pays $0.05 back to investors through a monthly dividend. That's been cut down from the $0.071 it paid before the pandemic.

And while I don't expect the dividend to get back to those levels, even if it reached $0.06 a month ($0.72 annually), buying the stock for under $7 in a market crash would give you a 10% dividend yield.

Royalty companies are traditionally some of the best stocks for dividend investors. And Pizza Pizza has the advantages of a well-known brand and defensive business model, which will allow it to survive the pandemic.

Bottom line

A market crash is an investor's best opportunity to buy the best stocks undervalued. So keep that in mind the next time TSX stocks sell off rapidly.

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1. Coronavirus
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2. TSX:ENB (Enbridge Inc.)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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