
# Market Crash 2020: A Chance to Turn Your $69,500 TFSA Into $1 Million

## Description

Equity markets slumped over 35% between February and March 2020, as the COVID-19 pandemic weighed heavily on investor sentiments and company financials. Countrywide lockdowns and lower consumer spending decimated most sectors, wiping off trillions in market value.



The markets bottomed out in March 2020 but surprised investors with a V-shaped recovery. Now the **S&P/TSX Composite Index** is trading just 12% below record highs, while **NASDAQ** has gained 22.6% year to date and trading at record highs.

However, there are several structural issues grappling the Canadian and global economies. While lockdown restrictions have lifted, consumer demand remains subdued due to a spike in unemployment rates, which stands at 12.3% for Canada. While the markets have rebounded, the Warren Buffett indicator suggests that Canadian equities are still overvalued.

According to Warren Buffett, one of the easiest ways of valuing the stock market is by looking at the market cap-to-GPD ratio. If this ratio is over 100%, it indicates the markets are overvalued and vice versa. This ratio for Canada's equity markets stands at 112%, which means a market correction is on the cards.

In a recessionary environment, markets tend to overcorrect. For example, Canada's Warren Buffett ratio stood at 56% when markets collapsed during the financial crisis of 2008-09. So, there is a possibility for markets to slump by 30-40% again, which will create an amazing buying opportunity for investors.

While it is impossible to time the markets, you can keep some liquid cash in reserve and invest at every major dip and allocate capital to quality growth and dividend stocks.

## Maximize your TFSA contribution

The TFSA (Tax-Free Savings Account) is a registered Canadian account that is hugely popular due to its tax-free withdrawals. The TFSA contribution limit for 2020 stands at $6,000, while the cumulative contribution room is $69,500. So, where do you invest this amount if the market crashes once again?

Investors can allocate a part of their capital to growth stocks:

- **Apple**: Up 993% since July 2010
- **Amazon**: Up 2,560% since July 2010
- **Shopify**: Up 3,000% since July 2015
- **Netflix**: Up 2,800% since July 2010
- **Lightspeed**: Up 100% since its IPO in March 2019
- **The Trade Desk**: Up 1,420% since its IPO in 2017
- **Okta**: Up 807% since its IPO in 2017

We can see that growth stocks create massive wealth if you stay invested. You also benefit from the power of compounding in the long term and can accelerate retirement plans by creating a portfolio of quality growth stocks.

For the more conservative investor, dividend-growth companies provide an opportunity to build wealth. Companies with strong financials and liquidity have the potential to grow dividend payments. A few of Canada's top dividend-growth companies with their respective yields are as below:

- **Enbridge**: 7.9%
- **TC Energy**: 5.5%
- **Bank of Nova Scotia**: 6.4%
- **BCE**: 5.9%
- **Pembina Pipeline**: 7.5%



## The Foolish takeaway

The above stocks are just an example of a few top growth and dividend-paying companies. You can use this as a starting point to identify similar stocks and allocate your capital for multi-fold returns.

While hoping the market crashes is not an ideal situation, it makes financial sense to be prepared with enough liquidity to take advantage of lower valuations and high yields. A market correction is also an opportunity to strengthen your investment portfolio.

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