Why I’d Buy TSX Shares Despite the Rising Threat of Another Market Crash

Description

You’ve probably heard chatter over the “overvaluation” of stocks and the formation of a tech bubble amid this COVID-19 pandemic. We’ve listened to this kind of bearish commentary non-stop ever since the economy and the stock market divorced, with common equity shares roaring higher in conjunction with unemployment rates.

While we’re certainly not out of the woods yet with the coronavirus still lingering out there, I think most of the bearish commentary is exaggerated.

Are stocks really expensive?

Sure, based on traditional valuation metrics, stocks look frothy.

Some of the white-hot growth stocks that have been riding high on pandemic tailwinds may even be at risk of a vicious correction or crash. It’s quite a step to compare today’s dominant tech stocks to the ones that inflated in the dot-com bubble, though.

In a prior piece, I’d highlighted reasons for why I thought stocks weren’t as expensive as they seemed back in June and urged investors to go against the popular opinion by participating in the markets, rather than sticking to the sidelines like a wallflower.

“With negligible (or negative) costs of borrowing, stocks from across the board could be due for some multiple compression over the next few years, as earnings recover from the coronavirus crisis and shoot higher thanks to the unprecedented magnitude of stimulus that will remain after the pandemic passes.” I wrote in a prior piece.

“Moreover, excess liquidity may have nowhere else to go but the equity market, as risky assets become the only game in town for those looking to make a satisfactory return on their investment over time, given how unrewarding risk-free assets have become in an era of near-zero interest rates.”

Good investors invest!

Fast forward to today, and the markets are higher, with the **S&P 500** around a percentage point away from hitting pre-pandemic highs. The economy continues to be in rough shape. Still, there have been signs of relief, and if the unprecedented amount of monetary and fiscal stimuli can help us bounce back quickly from COVID-19, and a vaccine is available for distribution in 2021, the next bull market could roar, potentially a lot sooner and louder than most expect.

Given today's massive uncertainties, it can be hard to justify buying stocks, especially with their above-average P/E ratios in a global pandemic. The magnitude of uncertainty has arguably never been this high. But remember, uncertainty doesn't necessarily equal risk, especially if you're a young investor with a long enough time horizon to roll with the waves of volatility that will come along.

With such high hopes for a quick recovery, the stock market could be at risk of correcting violently if we're due for bumps in the road en route to the elimination of COVID-19. There's no telling what could happen next, so you should be prepared with dry powder on the sidelines. Do invest in bargains you see today, but also have some cash to take advantage of better opportunities should they arise.

These TSX shares are perfect for cautiously optimistic investors

Today, **Fortis** (TSX:FTS)(NYSE:FTS) stands out to me as an attractive investment for rattled investors who are reluctant to jump in after the unprecedented relief rally. Unlike gold, cash, and cash equivalents, Fortis offers a nearly guaranteed 3.6%-yielding dividend that will grow at a 5-6% annual rate over the long run, regardless of what the endgame with the COVID-19 pandemic will be.

As a low-beta stock, Fortis shares are more likely to trade in its own world, rather than follow in the footsteps of the broader markets. The lower correlation to the broader markets could really help investors keep their cool come the next market crash. Although you won't get rich with a bond proxy like Fortis, you can stay rich and grow it at an above-average rate over prolonged periods of time.

To make the Fortis story that much sweeter, shares look undervalued, with an "action list buy" rating from TD Securities alongside a $62 price target, implying nearly 16% in upside from today's levels.

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