Alert! Canadians Are Hoarding Cash: Should You?

Description

According to a recent **CIBC** report, Canadians are hoarding cash during this pandemic-triggered recession. Specifically, households are sitting on $90 billion, while businesses are keeping $80 billion of excess cash.

The $90 billion translates to about $8,704 per household, according to the number of families on July 1, as estimated by Statistics Canada.

Should you have more cash on hand, too?

It's the bare minimum to have an emergency fund of $1,000 handy. However, experts recommend having an emergency fund that equates three to six months of your living expenses — because we never know what's going to happen.

It's understandable that with the far and wide impacts of the pandemic that Canadians would want to hold a comfortable buffer of cash that's way above the $1,000.

This pandemic has driven households to hold much more than $1,000, but is that enough? Individuals will need to look at their spending and their job security to determine if holding more cash is necessary.

Personally, instead of holding on to an excess amount of cash, I'd opt to put that cash to work to generate more passive income instead.

Putting cash to work for more income

If on top of your emergency fund, you have some extra cash available, you should highly consider investing in value stocks that provide safe, juicy dividends. They pay you handsomely to wait for their price appreciation!

Here are a few undervalued stocks that provide safe dividends that you should check out. It'd be safest if you have an investment horizon of at least three years.

At $62.87 per share, at writing, **Bank of Nova Scotia** stock provides a 5.73% yield. The stock is undervalued by about 24%, which implies nearly 32% upside potential on a reversion to the mean. Investing $5,000 in BNS stock will generate income of about $285 a year.

At $21.80 per share, **Manulife** stock yields 5.14%. It's undervalued by about 46%, which represents nearly 83% upside potential over the next few years. Investing $5,000 in MFC stock will generate annual income of roughly $255.

Both BNS and Manulife will benefit in a rising interest rate environment, which, unfortunately, we're not experiencing now. However, they'll still be able to maintain their current dividends and increase their payouts when the macro environment improves.

H&R REIT yields 5.06% at $13.63 per unit. It's discounted by about 33%, which means it can appreciate 50% over the next few years. Investing $5,000 in H&R REIT stock will generate $253 a year or monthly income of about $21. In fact, it does pay a monthly cash distribution, which is convenient for helping pay the bills.

The stock was weighed down by its retail properties portfolio, which was recovering as the economy reopened from economic shutdowns. The overall rent collection for its diversified real estate portfolio was impressive at 95% by October.

The Foolish takeaway

It's fine to be holding more cash than usual in these stressful times. However, if you find you're holding way more than you need — perhaps way more than $8,704, you should consider investing it. After all, cash earns close to nothing nowadays with ultra-low interest rates.

The best returns come from buying solid stocks when no one wants them. As BNS, MFC, and HR.UN remain at depressed levels, they're still unwanted. That gives you the opportunity to scoop up some shares to boost your passive income.

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