



TFSA Emergency Portfolio: 1 Resilient Stock to Buy in April

Description

Just last month, the stock market saw a correction, and now Prime Minister Justin Trudeau announced concerns about the third wave of COVID-19 pandemic. In these uncertain times, it is natural to worry about your investments. The Canada Revenue Agency (CRA) has increased the Canada Recovery Benefit (CRB) by 12 weeks, which should come in handy during the third wave. But these benefits will exhaust then what will you do? It's time you create an emergency portfolio before the next emergency comes.

Pre-requisites to an emergency portfolio

When you create an emergency portfolio, keep three things in mind:

- Determine how much money you need for an emergency.
- Invest through an account that is easy to access and has a tax advantage.
- Invest in stocks that are resilient to the economy.

The CRA made the Canada Emergency Response Benefit (CERB) and CRB available for six and a half months. It has [extended](#) the benefits as the pandemic is the biggest emergency since the Great Depression of 1929. While there is no one-size-fits-all solution for emergencies, you should at least save your six-month salary for emergencies.

Once you have determined your emergency amount, start accumulating it through regular investing in the Tax-Free Savings Account (TFSA). I recommend TFSA for emergency funding because this is the only account where withdrawals are tax-free. You don't want a tax burden during an emergency. Now you are set to start your hunt for resilient stocks.

One resilient stock to buy in April

A resilient company enjoys stable earnings per share (EPS) and cash flow growth. To achieve stable profits, the company should have diversified revenue streams so weakness in one segment is offset by

growth in another segment. Nowadays, there are cloud-based software firms that require little capital and can fund years of losses with hopes of becoming sticky and critical. But even these companies eventually need to become profitable as it is the EPS growth that the share follows in the long term.

Legacy software companies like **Oracle** or **SAP** are in a mature stage. They earn stable cash flows from maintenance and professional services from existing clients. However, their stock price growth has stagnated. But this [resilient stock](#) is growing EPS at a stable rate, which is reflecting in its stock price.

Constellation stock

Constellation Software ([TSX:CSU](#)) is a leader in vertical-specific software (VSS) services. VSS provides mission-critical software solutions that target one or two specific verticals. As they are mission-critical, customers are reluctant to switch providers, and they enjoy stable cash flows. Constellation adopts a private equity model, wherein it acquires small VSS providers and brings them under its umbrella.

Its subsidiary Volaris adopts a unique acquisition principle of 'buy and hold forever.' It acquires companies and provides them access to capital, business guidance, and best practices to help them accelerate their growth. These VSS providers maintain their independence, corporate identity, and the management team. This helps these companies retain their clients and brand and grow their business.

Since its inception in 1995, Constellation has acquired over 260 VSS providers operating across 120+ verticals. Its providers cater to more than 125 000 customers operating in 100+ countries around the world. Every new acquisition brings in cash flows from maintenance and professional services, and Constellation's capital helps them grow organically. Its diverse portfolio and customer base make it resilient to an economic crisis.

This model has helped Constellation increase its EPS at a compounded annual growth rate (CAGR) of 16% between 2016 and 2020.

Foolish takeaway

Constellation stock has already surged 18% from its January dip. At \$1,835, it is expensive, but it won't dip much because of its resilient nature. Even in the March 2020 crash, it fell 20%, while the **TSX Composite Index** fell more than 30%. One good strategy would be to buy one Constellation stock at its current price so that you can enjoy the rally. You can buy one more Constellation stock in another market correction.

CATEGORY

1. Coronavirus
2. Investing
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TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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