New Mortgage Rules: What it Means for Canadian Homebuyers

Description

It's going to get more difficult for Canadians to buy a home. Yesterday, the Office of the Superintendent of Financial Institutions (OSFI) announced that coming June 1, the minimum rate for the mortgage-qualifying stress test would be 5.25% for insured mortgages. That is, this would apply to home purchases with a down payment of less than 20%.

As a result of this change, *Dreyer Group Mortgage Brokers* estimates that many Canadians would see their loan eligibility reduce by 4-5%.

Canadian home prices have been on the rise over the long run, much like the stock market, but the former has seen a steeper climb than usual since the second half of 2020. Macro factors such as the pandemic have a hand in that effect.

The rate hike for the stress test isn't drastic. So, it might not do much in cooling off the Canadian housing market.

Canadians' savings need to keep up with rising home prices. Just stuffing your income in savings accounts, GICs, or even quality bonds will not suffice because interest rates are far too low.

There's one easy way to invest for high returns — stocks. With calculated risks across a diversified portfolio, eager and patient homeowners-to-be can get the down payment they need. And if they build a stock portfolio that's big enough, they might even be able to fund a good portion of their mortgage payments.

Once you've become well versed in the arts of stock investing, it's not a difficult task to earn returns of 7-20% a year on quality stocks you buy at bargain prices.

The best stocks to buy today

The Canadian dollar is at its five-year high against the U.S. dollar. So, it will be a good idea to invest in quality stocks listed on the U.S. exchanges today with your loonies.

Some cheap stocks with high growth are **Alibaba** (NYSE:BABA) and **Tencent** (OTC:TCEHY).

Alibaba is sometimes called the **Amazon** of China. It's undervalued because of political pressures but it will benefit from a growing middle class in China. The online retailer is estimated to grow its earnings per share by about 28% per year over the next three to five years but it only trades at a price-to-earnings ratio (P/E) of about 22! That's a low PEG ratio of 0.79 — a very cheap multiple to pay for growth.

Even if it were to remain at that depressed P/E, it can still deliver annualized returns of about 29% over the next five years and turn a $10,000 investment into about $44,300.

Tencent's net touches social networks (22% of Q1 2021 revenue), online/mobile games (32%), online advertising (16%), and fintech and business services (29%). Weixin and WeChat have more than 1.2 billion monthly active users. The company generates substantial free cash flow — about US$24.5 billion in the last 12 months.

The growth stock has declined more than 20% from its recent all-time high of about US$100 per share. Analysts think Tencent stock has upside potential of approximately 21% over the next 12 months.

Although Tencent stock's yield is small at 0.27%, it has increased its dividend in HKD every year since 2009. Its 10-year dividend-growth rate is astounding at about 31%. And in this period, the internet stock's annualized returns are almost 30%, turning a $10,000 investment into $135,616 — a 13-bagger!

CATEGORY

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TICKERS GLOBAL

1. NYSE:BABA (Alibaba Group Holding Limited)
2. OTC:TCEH.Y (Tencent Holdings Limited)

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Author
kayng