Bad News in the Economy Means Good News for Canadians Building Wealth

Description

The economy is not in good shape. High inflation in groceries, gas prices — you name it — is affecting people's livelihood. Central banks are increasing interest rates swiftly to put inflation back under control, but this will take time to take effect. While they aim for a soft landing, it cannot be helped that the risk of a recession has increased.

The U.S. and Canadian stock markets have responded by correcting with the U.S. already in a bear market. In my spring cleaning, I dug up my notes of a quote from an unknown book that describes perfectly today's opportunity for Canadians to build wealth:

> "Value investing believes no single factor tends to lower one's risk more than buying a company at a favourable price."

In other words, by investing during a market correction, Canadians can position themselves to build wealth when the market recovers. You can invest in a broad market index, such as the **SPDR S&P 500 ETF Trust**. The U.S. stock market index is more diversified than a broad Canadian stock market index, which is more concentrated in financial services, energy, and materials, which makes the former a better choice in general.

Alternatively, you can invest in individual stocks that have fallen meaningfully in this market downturn. The precondition is that quality businesses must be behind these stocks. After all, other than investors buying at favourable valuations, long-term returns of stocks are also driven by the business performance of the underlying businesses.

For example, from a long-term investment perspective, big Canadian bank stocks are getting attractive with **Bank of Nova Scotia** and **CIBC** offering yields of 5.45% and 5.25%, respectively, at writing. Both are excellent considerations for passive income in this correction and an eventual rebound of their stock prices.

No matter which stocks (businesses) you decide to invest in, don't expect a quick rebound, though. Specifically, if you plan to use the money elsewhere within one year, you should keep the money in cash or cash equivalents. Usually, it would be safe to have an investment time frame of at least three to five years. This also allows time for your investments to grow meaningfully.

A reversion to normal markets over the next five years can lead to annualized returns of about 12-14% in an investment in Bank of Nova Scotia or CIBC stocks today. These returns include the works of dividend income, earnings growth, and valuation expansion back to normal levels.

Online brokerages like **National Bank of Canada** and Wealthsimple offer commission-free trading. So, there's no excuse not to put excess cash to work. Investing in quality stocks can work beautiful for long-term goals such as saving for a car, vacation, home, or retirement.

Investments of $3,600 a year (by saving $300 a month) leading to returns of 7% annually will transform into $157,915 in 20 years. On a 13% rate of return, the result would be $329,292.

I know it's tough to save in today's high inflationary environment. But if you could reduce spending on discretionary items, you would be able to invest in the current stock market correction at cheaper stock prices and turn that into greater wealth down the road. Essentially, it's delaying gratification today for future wealth.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Investing

Date
2025/07/23
Date Created
2022/06/27
Author
kayng