TFSA and RRSP Investors: 1 Dividend Aristocrat to Buy as Others Panic

Description

Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) investors must focus on the extremely long term if they wish to build a large and uncrackable nest egg. Undoubtedly, many retirees who've embraced the 60/40 portfolio (60% in equities; 40% in bonds) are dealing with some of the worst returns in recent memory.

With rates on the rise, bond prices have been under considerable pressure. Similarly, the equity markets have also taken a spill, with central banks' hands hovering over the rate-hike button, with another 75-basis-point (bps) hike possible this month, with two 25-bps hikes that could happen by year's end.

Rates are rising, but fear not

The Fed has made its hawkish tone clear. It's committed to bringing down inflation, even if the economy needs to take a hit. Though the Fed may decide to cut rates if employment takes too large a hit (remember, the Fed used to be employment focused), there's a good chance that the Fed could stand pat with rates in the 3-4% range once it's done fighting off inflation. Indeed, employment has proven quite robust, and if there is a "soft-landing" for the economy, with no recession in the books, the stock markets may have overreacted to the downside.

Indeed, there are brilliant analysts at well-established firms in both the bull and bear camps right now. One group of pundits will look like geniuses a year from now, while you probably won't hear back from the other group!

It's hard to be a contrarian at a time like this. And although it's impossible to tell what the course for inflation is moving forward, going against conventional wisdom, I believe, is key to doing better than the pack. Right now, the pack is running scared. And as a long-term TFSA or RRSP investor, you should treat the volatility as a means to pick up a few pieces of quality merchandise. Now, you don't need to exhaust your liquidity reserves, but you should think about hitting the buy button here and there, while others pound the sell button.

Bank of Nova Scotia: A Dividend Aristocrat that's down but not out

The Canadian banks are a fine place to look now that they've been dragged into a bear market. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is an internationally focused Canadian bank that's been clobbered. It's now down to $70 and change per share, more than 25% from its all-time high. Fueling the selloff was a quarterly flop (BNS missed earnings by a penny, while revenue was quite flat) and fears of a loan loss surge if a recession strikes next year.

Indeed, international exposure is always risky, especially in the face of a global downturn. However, TFSA and RRSP investors should seek to gain some emerging market exposure in the long run to spruce up returns. Bank of Nova Scotia is a perfect mix of domestic and international banking. Though the massive 25% spill may be just the start of a fiercer selloff, I think there's a lot to gain by giving the bank the benefit of the doubt.

Shares of BNS trade at 1.3 times price to book, which is well below the banking industry average of around 1.5. With a common equity tier-one ratio of 11.4% (comfortably above the minimum requirement of 10.5%), Bank of Nova Scotia has more than enough financial flexibility to power through a mild recession.

Provision mode is never fun for bank investors. But as we found out in late 2020 and early 2021, surging loan losses can turn into surging profits at the drop of a hat.

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