5 Stocks I'd Buy if the Market Falls

Description

The global equity markets are cooling off after the red-hot 2013 performance. The main index on the **Toronto Stock Exchange 300 Composite Index** (^GSPTSE) has already lost 3.7% from its recent peak and the **S&P 500** (^SPX) is down 5.5% from the peak.

This does not count as a major correction as yet but more volatility may be ahead. Here are a few ways to ease the pain during a full market correction.

1. Do nothing
You have a long investment time horizon, are not fazed by market corrections and are satisfied with the quality and composition of your portfolio; this may ultimately be the best approach as very few investors can consistently "time" their market entry and exit points correctly.

2. Buy high quality companies when their prices reach target levels

Gather the list of stocks that you consider to be attractive from your portfolio objective perspective, set target prices for each of these stocks and take action when the targets are reached.

I have previously suggested certain criteria for the selection of high-quality dividend-paying companies , which included: 1) a track record of consistent and growing dividend payments, 2) a rock-solid balance sheet and 3) a pay-out ratio that leaves room for unforeseen events.

There are five companies on my watch list that qualify based on these criteria as well as an attractive dividend yield and reasonable growth prospects — **Thomson Reuters** (TSX:TRI)(NYSE:TRI), **BCE** (TSX:BCE)(NYSE:BCE), **Canadian National Railway** (TSX:CNR)(NYSE:CNI), **Tim Hortons** (TSX:THI) and **Fortis** (TSX:FTS). I'll be looking to buy if a market drop brings their prices down to my target levels.

3. Re-allocate your portfolio to include less volatile stocks

Stocks with high levels of volatility tend to fall more in a broad market correction. As a general rule, companies with a smaller market capitalisation, low trading volumes and that operate in certain sectors such as mining and technology will be more volatile than the overall market.

Large-cap stocks, especially from the utility, food and consumer goods and telecommunication sectors, normally have lower levels of volatility and should decline less in a market correction.

4. Re-allocate your portfolio to include stocks influenced by a variety of economic factors

Diversification could be a powerful way to ensure that your overall portfolio of equities becomes less volatile. This could be done in a formal quantitative way by measuring the correlation (degree of co-movement) between stocks and selecting stocks in the portfolio with low levels of correlation. Normally these stocks would be companies that are influenced by different economic factors.

Foolish bottom line

Decide how you wish to react if the market correction deepens. Do not allow the fear factor to drive your investments. This will invariable lead to panic and irrational investment decisions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:FTS (Fortis Inc.)
4. TSX:TRI (Thomson Reuters)

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