3 Stocks to Protect Your Capital During the Next Crash

Description

At some point, the stock market is going to experience a significant sell-off. It is guaranteed to happen.

Of course, nobody knows exactly *when* the market is going to correct. It could start to happen tomorrow, or we may continue to have a few more years before stocks sell off in a significant way. All anyone can do is guess based on underlying economic fundamentals.

Personally, I'm positioning my portfolio to prepare for a market correction. The last time the **TSX Composite Index** (TSX: ^OSPTX) had a major correction of more than 10% was in the summer of 2011. Three years later, we're practically overdue.

Many investors are sitting on nice gains, and holding stocks that are at multi-year highs. Some of these stocks have gone up a long way in a relatively short period of time. The danger is that once investors start to get nervous, they could all hit the sell button quickly, sending some of these high-flying stocks lower very quickly.

If you're concerned about a potential market sell-off, here are three stocks that will not only protect your capital, but also pay generous dividends while you wait.

1. Dream Office REIT

For many investors, REITs are the perfect blend between protecting your capital and having just a small amount of growth. Sure, they're interest-rate-sensitive, but rates in Canada are unlikely to go up in a meaningful way any time soon.

Dream Office REIT (TSX: D.UN) has been among the laggers in the sector, partially because of some recent lackluster results, and partially because it just didn't recover with its peers after last year's sell-off. This represents a terrific buying opportunity for defensive buyers.

Dream — which just recently changed its name from Dundee Office REIT — gives investors a yield of more than 7.6%, with a payout ratio of around 90%. That's a little on the high side, but if the company can improve its 94% occupancy ratio, then those extra rents should fall pretty much straight to the bottom line. This should help boost the stock price.

Dream owns some of Canada's most prestigious office space, including 185 separate buildings and more than 28 million square feet located in prime spots in every major Canadian city. Its largest tenants include companies like **Bank of Nova Scotia** and **Enbridge**. These tenants aren't about to start bouncing rent cheques.

2. Metro

As we all remember, 2008-09 was a terrible time for investors. Many saw their portfolios cut in half before eventually recovering. But if you had invested in **Metro** (TSX: MRU), Canada's third-largest grocer, your shares would have actually gone up during the crisis. Oh, and you would have enjoyed a dividend increase too. Can you get more recession-resistant than that?

Groceries have always been viewed as a recession-proof industry. Even people who have lost their jobs still have to eat. In fact, during poor economic times, people tend to shop more, and eat out at restaurants less.

Plus, Metro is significantly cheaper than **Loblaw** (TSX: L), Canada's leader in the industry. Metro's P/E ratio is about 25% less, its price-to-book value ratio is lower, and it even gives investors a dividend growing significantly faster.

3. Rogers Communications

While shares in **Rogers Communications** (TSX: RCI.B)(NYSE: RCI) were down during the financial crisis, they still outperformed the underlying market significantly. It's obvious that the company is a recession-resistant stock.

Rogers is Canada's largest wireless provider, as well as a dominant player in home phone, internet, and television in Ontario. It also has a significant media division, owning many different television channels, radio stations, and even the Toronto Blue Jays baseball team.

Unless things gets really tough, Canadian consumers aren't about to cancel their home phone or cable service, and many of us simply can't do without our smartphone or internet connectivity. If the market turns sharply downwards, Rogers will carry on without much of a hiccup.

Management is also extremely friendly to shareholders. Not only does it pay a 4.1% dividend, but the company has also bought back almost 10% of its outstanding shares since the end of 2010. That's the kind of management team investors want on their side.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:L (Loblaw Companies Limited)
4. TSX:MRU (Metro Inc.)

5. TSX:RCI.B (Rogers Communications Inc.)

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