Forget Buying a House: Buy These Income Generators Instead

Description

In the past, many believed that the safest investment you could make was buying a house. After all, houses aren't going to be crushed by competitors, or spend capital unwisely, or go bankrupt. They'll always still be there, no matter how the economy is faring. And even if you don't need another place to live, you can always use the property to generate rental income.

After the housing crisis, perceptions have changed dramatically. And even though Canada hasn't suffered the same crash as our neighbours to the south, many are worried that our housing market is overvalued, and due for a correction.

Fortunately, there are stocks that offer similar benefits as real estate. Below we look at three examples.

1. SNC Lavalin

SNC Lavalin (TSX: SNC) is Canada's top engineering & construction firm, with revenue last year of nearly $8 billion. And there are numerous reasons why SNC's earnings are safer than owning a house.

For one, there's more diversification. Last year, no industry segment accounted for even a quarter of SNC's revenue, and the company also earned a third of its revenue from outside of Canada. The most cyclical sectors – mining & metallurgy and oil & gas – only accounted for a quarter of revenue.

Secondly, SNC has a portfolio of very stable assets, including a 16.8% stake in Highway 407 outside of Toronto. So as long as Torontonians hate traffic, SNC should continue to generate plenty of income.

2. Royal Bank

It's true that there are plenty of concerns about Canadian real estate, and a downturn would not be good for Canada's banks. But like SNC, Canada's banks have plenty of diversification, with **Royal Bank of Canada** (TSX: RY)(NYSE: RY) being a perfect example.

While RBC does make plenty of money off of Canadian banking, it also has large capital markets and wealth management businesses, which are expanding mainly outside of Canada. To illustrate, last year 36% of RBC's net income came outside of Canada's borders. Back in 2010, that number was less than 19%.

Even within Canada, offering mortgages isn't particularly risky – for example loan losses on mortgages were only $41 million last year on a total portfolio of $200 billion. So even if housing does suffer a correction, and loan losses from mortgages double, you shouldn't get burned too badly.

3. TransCanada

It's hard to find an industry in Canada more secure than the pipelines. These companies operate critical infrastructure, sign long-term contracts, and are facing plenty of increasing production from the energy sector.

TransCanada (TSX: TRP)(NYSE: TRP) is one of the most attractive pipeline stocks available, with a 3.6% dividend. And of course a housing correction will have little to no effect on the company.

CATEGORY

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