1 Simple Reason Why Canada's Grocers Should Be in Your Portfolio

Description

Since the financial world looked like it was about to collapse back in 2008-2009, stock markets across the world have practically been on an uninterrupted march skyward. Sure, there have been a few stumbles thrown in there because of weakness in Europe and the Federal Reserve starting to turn off the money taps, but overall, it's been a good five years to be an investor.

And that should scare you, at least a bit.

Nobody knows when the next correction is going to happen. It could be in September, April, or not until 2017. My crystal ball can't predict it, and neither can anyone else's, which is why you shouldn't take any major action when it comes to your portfolio. We're in this for the long haul, so we're not concerned about short-term movements. Let the market correct, I say, and I'll be right there loading up on cheap companies.

However, that doesn't mean investors shouldn't do anything. Nobody wants you to abandon your plan, but tweaking it a bit isn't such a bad idea. Locking in profit on a volatile stock and replacing it with something conservative is just the tweak your portfolio needs.

During times of market weakness, Canada's grocers have performed admirably. Take a look at their performance during the worst part of the financial crisis.

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Metro, Inc. (TSX: MRU) led the way with an almost 35% return, while **Empire Company Limited** (TSX: EMP.A) was also up more than 7%. **Loblaw Companies Limited** (TSX: L) lagged the other two significantly, but still outperformed the underlying market by a fair margin. Each of these stocks also paid dividends during the period, adding to returns.

The sector has been busy with consolidation, starting with Empire acquiring all of **Safeway Inc.'s** Canadian stores for $4.8 billion. So far, the combined company has stumbled a bit, but shares have recovered since hitting a 52-week low in June. Its shares currently trade at $75.71, with analysts predicting that earnings will rise to $5.43 per share in 2015 and $6.44 per share in 2016. The stock trades at just 14 times 2015 earnings.

Loblaw also had a big acquisition in 2013, paying more than $12 billion for Shoppers Drug Mart after it lost out on the Safeway bidding war. Over the long term the acquisition should be a nice fit, since Loblaw is traditionally weak in the areas where Shoppers is strong — mainly in densely populated urban locations and pharmacy. Shoppers has also traditionally enjoyed higher margins than other grocers.

One thing investors overlook about Loblaw is its great financial services division. It offers full service banking in most of its superstores, along with insurance, mortgages, GICs, and the big money maker, credit cards. Canadians owe more than $2.5 billion on their PC Mastercards, and the company gains brand awareness every time a shopper swipes one of its cards.

Even though Metro didn't get in on the acquisition party, it's still an attractive stock during market downturns. It trades at just 15 times earnings, pays a 1.7% dividend that was just increased by 20%, and has a more conservative balance sheet than its competitors. The company has a large presence in Quebec and Ontario, and could start to move west.

Canada's grocers are a nice place to hide during market downturns. Consider them for your portfolio, especially as markets continue to make record highs. It's a good time to be a little conservative.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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