



## An Instant 5-Stock Income Portfolio for Low-Risk Investors

### Description

Volatility in the stock market has the potential to unnerve the savviest investors. However, there are ways to reduce the volatility of the price movement of the overall stock portfolio and even more importantly for income-seeking investors, the risk of a decline in the dividend payment stream. This can be achieved in a few simple steps:

#### 1. Select companies that operate in a less cyclical industry

Some industries have characteristics that classify them as highly cyclical, continuously going through boom and bust cycles. Companies operating in these industries are often capital-intensive and have very little control over input costs and/or product pricing, resulting in inconsistent levels of profitability and dividend payments. Typical examples are mining companies, oil and gas exploration and production companies, and airlines.

On the other hand, utilities, telecommunication companies, some banks, food retailers, and pipeline companies are often in a much better position to grow their profits and dividends consistently over time. A simple volatility measure, beta is a good indicator of price volatility but is also often reflective of profit consistency. Here are some examples: the beta (lower is better) of **Penn West Petroleum Ltd.** is currently 2.03 and **Crescent Point Energy Corp.** 1.42, while the beta of **Telus Corporation** ([TSX: T](#)) ([NYSE: T](#)) is 0.65 and **Fortis Inc.** ([TSX: FTS](#)) 0.34.

#### 2. Combine stocks in a diversified portfolio

Modern portfolio theory tells us that the application of a few simple rules can improve the risk profile of a portfolio without reducing the return potential. The mathematics behind the theory is somewhat complicated but, fortunately, the application is intuitive and, in its most elementary form, based on the old adage, "Never put all your eggs in one basket." Below are five stocks that will offer reasonable diversification and in the process reduce both price volatility and income volatility of the overall portfolio.

#### 3. Ensure that the companies can sustain their dividends even in difficult times

The identification of companies that will be able to pay a stable and growing stream of dividends for

years to come is an important step in constructing a solid equity income portfolio. Unfortunately, the future is uncertain but investors should focus on companies that have (1) A track record of consistent and growing dividend payments, (2) A rock-solid balance sheet, and (3) A low dividend payout ratio.

Selecting companies based on these guidelines will provide investors with the comfort that the company has the pedigree of a true dividend champion and the balance sheet strength to support ongoing payments even if business conditions become tough. Scanning the horizon for factors that will impact the ability of the company to continue to pay and grow dividends should supplement the analysis.

### **An instant 5-stock, low-volatility portfolio with attractive income and growth**

The stocks listed below come from different, more stable economic sectors, have great individual dividend payment track records, solid balance sheets, excellent cash flows, reasonable growth prospects, and produce a portfolio with an attractive yield and low volatility.

<b>Company</b>	<b>2015 Expected Dividend Yield*</b>	<b>2015 Expected Dividend Growth*</b>	<b>Main Sector Exposures</b>	<b>(V</b>
<b>Telus Corporation</b>	4.1%	11%	Telecommunications	
<b>Toronto-Dominion Bank (</b> <a href="#">TSX: TD</a> )( <a href="#">NYSE: TD</a> )	3.8%	10%	Banking; interest rates	
<b>TransCanada Corporation (</b> <a href="#">TSX: TRP</a> )( <a href="#">NYSE: TRP</a> )	3.7%	6.7%	Pipelines	
<b>Fortis Inc.</b>	3.7%	4.5%	Utility	
<b>North West Company Inc (</b> <a href="#">TSX: NWC</a> )	5.0%	5.2%	Consumer staples	
<b>Overall Portfolio</b>	<b>4.1%</b>	<b>7.5%</b>		

\* Source: Thomson Reuters.

By following these steps, investors can create solid, sleep-easy portfolios that should provide an attractive and growing income for years to come.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. NYSE:TRP (Tc Energy)
3. NYSE:TU (TELUS)
4. TSX:FTS (Fortis Inc.)
5. TSX:NWC (The North West Company Inc.)
6. TSX:T (TELUS)
7. TSX:TD (The Toronto-Dominion Bank)
8. TSX:TRP (TC Energy Corporation)

## Category

1. Dividend Stocks
2. Investing

## Date

2025/07/02

## Date Created

2014/10/29

## Author

deonvernooy

default watermark