3 Low-Volatility Stocks for Your Retirement Portfolio

Description

For investors interested in retirement—or even conservative investors far from retirement—the primary goal is often capital preservation, that is to say, maintaining what you have and avoiding exposure as much as possible to the exaggerated swings equities are exposed to. The secondary goal is to earn a reasonable rate of return, hopefully higher than whatever the risk-free rate is, and ideally in line with or outperforming the index.

Unfortunately, modern finance claims that in order to gain higher returns, it is necessary to take on extra risk. Is this true? According to research, perhaps not. A recent study from the *Financial Analysts Journal* revealed that from 1968 to 2010 the least volatile (or least risky) 20% of the 1,000 largest American stocks outperformed the most volatile 20% of American stocks by a large margin.

With this in mind, by picking the least volatile stocks, you can reduce risk and increase return. In Canada three of the least volatile and highest-returning stocks include **Brookfield Asset Management Inc.** (TSX:BAM.A)(NYSE:BAM), **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB), and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), and conservative or retiring investors should consider all three as core portfolio holdings.

Why holding low-volatility stocks is important

Firstly, it is necessary to define low volatility. One way to measure volatility is using a measure called *beta.* Beta attempts to put a number on risk by determining how volatile a stock is (or how much it moves around), and comparing that to the broader index (in Canada, this would be the TSX).

A stock with a beta of one would have the same volatility as the market, whereas a beta less than one would have less volatility then the market, and a beta more than one would have more volatility than the market. For example, if a stock has a beta of 0.5, one can expect it to be half as volatile as the market. This also means if the stock market drops by 10% next week, that stock would likely only drop by about 5%.

Why is this important? The main reason is because low-beta stocks are less affected by the broader market, making them great for diversification. You may have 20 stocks in your portfolio, but if they all have a beta of one, when the overall TSX falls, your portfolio will also fall in tandem.

Brookfield Asset Management

Brookfield Asset Management is an excellent place to start for investors looking for a combination of low volatility and returns. Brookfield is an asset manager focused primarily on “real assets”—that is to say, property, infrastructure, renewable energy assets, and private equity.

These are assets that often generate strong cash flows, often with high barriers to entry, and thanks to the global nature of Brookfield (only 11% of its assets are located in Canada), Brookfield is able to deploy capital to where it is most in demand. This strategy produces very low volatility, and currently Brookfield has a low beta of 0.34. This is despite the fact that shares have generated a compound annual return of 20% over the past 20 years compared to 10% for the S&P 500.

CGI Group Inc.

CGI Group is an IT-services firm that focuses largely on back-office IT services. Like Brookfield, CGI is a global company, which means it has a low correlation to the TSX. Currently, CGI only earns about 15% of revenue from Canada, with the remainder being from global sources.

CGI also has highly stable earnings thanks to the fact most of its business is based off long-term contracts. These contracts are an average of seven years in length, and often with long-term customers in highly sensitive sectors (like the government), that are unlikely to switch. Stable earnings and global diversification give CGI a low beta of 0.39.

Toronto-Dominion Bank

While more volatile than CGI or Brookfield, TD Bank is the least volatile bank with a beta of 0.51. Over the past five years, TD Bank has offered better returns for less risk—it has produced total shareholder returns of 16.5% (the highest in the group) with the lowest beta.

The reason? TD Bank has 30% of its revenue coming from the U.S., and its operations in both the U.S. and Canada are focused on low-volatility retail operations rather than the more risky capital market.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. NYSE:GIB (CGI Group Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BN (Brookfield)
5. TSX:GIB.A (CGI)
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Author
amancini