# 4 Stocks to Weather All Market Conditions

## Description

This year has been a rude awakening for many Canadian investors. After a 10.6% return in 2014, and a stock market that has returned 93% since the TSX bottomed in 2009, the TSX is currently down about 6% for the year. While the TSX was positive for the first half of the year, the market has plunged dramatically since early August, and it is uncertain if the losses will continue or not.



What is clear is that investors need a portfolio that can not only benefit them when the market is surging, but also when the market is lacklustre or even declining. The secret is create a diversified portfolio that contains stocks that each do well in differing market conditions.

For example, some stocks (like commodity plays or major financial institutions) typically do better during periods of strong economic growth with some level of inflation. Other stocks, like utilities, do better during periods of weak economic growth and low interest rates.

A portfolio consisting of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), **Fairfax Financial Holdings Ltd.** (TSX:FFH), **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT), and **Brookfield Renewable Energy Partners L.P.** (TSX:BEP.UN)(NYSE:BEP) can help you weather a variety of conditions.

**Toronto-Dominion Bank**

Canada's banks have proven to be incredibly resilient in a whole host of economic conditions due to the fact they are diversified across retail, wholesale, and wealth management businesses. However, they thrive under a particular set of conditions. Namely, banks do well during periods of economic growth when consumers are increasing their debt burdens.

As GDP grows, employment and disposable income grows, and consumers typically take on more credit in the form of mortgages, credit cards, and lines of credit. In addition, rising asset prices (especially equity markets) create increased activity for the wealth management segment of banks, and banks typically see rising revenues since they earn a percentage of total assets management. Therefore, TD is an excellent bet on the future growth and the success of the Canadian economy.

TD earns approximately 30% of earnings from the U.S. and 10% providing diversification. In addition, TD has low levels of impaired loans, and a 95% of its earnings come from low-risk retail banking as opposed to more volatile capital markets segments. This makes TD a low-risk way to gain exposure to economic growth.

### Potash Corp./Saskatchewan

Like TD, fertilizer company Potash Corp. is also poised to do well in a growing, inflationary global economy. Potash Corp.'s main product is potash, and currently Potash Corp. is the world's largest producer with over 20% of global capacity and half of the world's estimated new supply of potash coming from its projects.

Potash prices are poised to increase over time as the world population increases, arable land decreases, and developed countries increase caloric intake and switch to more protein-heavy diets. Potash's dominant global position and stable dividend provide downside risk, gives exposure to future economic growth, and protects against inflation.

### Fairfax Financial Holdings

While the previous two stocks are pro-growth plays, Fairfax is extremely defensive and poised to do relatively well in an environment of falling equity prices and deflation. Run by "Canada's Warren Buffett" Prem Watsa, Fairfax is a financial holding company that largely takes buy-and-hold positions in equities, but also frequently makes bets on various macroeconomic conditions.



Mainly, Fairfax holds derivative contracts that are poised increase dramatically if deflation occurs in the United States or Europe. With commodity prices falling, China weakening its yuan which harms non-Chinese exporters, and falling global GDP growth, there are certainly deflationary pressures.

In addition, Fairfax also has its equity portfolio hedged. This means Fairfax's equity portfolio is protected in the event of plunging equity markets. The results speak for themselves: during the recent decline in August, Fairfax shares barely budged.

### Brookfield Renewable Energy

Finally, Brookfield Renewable represents another very defensive, high-yield stock that is poised to do well in weak market conditions. Brookfield owns renewable energy assets that are secured by long-term contracts with an average length of 17 years.

Because of how essential electricity is, utilities like Brookfield can maintain prices during weak economic conditions, and this combined with the long-term contracted nature of revenues means that cash flows are relatively stable. This is particularly attractive during low-growth, or deflationary periods.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)

2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:FFH (Fairfax Financial Holdings Limited)
5. TSX:TD (The Toronto-Dominion Bank)

**Category**

1. Investing

**Date**
2025/08/23
**Date Created**
2015/09/02
**Author**
amancini