3 Safe Havens in This Falling Market

Description

Since April, the **iShares S&P/TSX 60 Index Fund**, which is representative of the market, has fallen about 18%. With the Canadian market heavy in energy and mining, it would seem there's no safe place for investors to go.

You don't need to run for the hills. There are three safe havens you can consider in this falling market.

Quality dividend stocks with high yields

Look for quality businesses that generate stellar earnings and cash flows and that have a culture of sharing profits with shareholders in the form of dividends. Buying these companies at a margin of safety will help reduce the downside. Even if a fall in the market is inevitable, at least you know you bought these businesses at discounts, so you should feel more at ease.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is about $70 with a 4.5% yield and is priced at a decent discount of 17%. Similarly, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is about $54.50 with a juicy 5.1% yield and is priced at a discount of 24%.

Both of their dividends are well covered by earnings because their payout ratios are around 50%. Furthermore, according to their dividend-growth patterns, they should increase their dividends in the second quarter of 2016.

Quality businesses such as these banks are safe havens because they pay you safe dividends while you wait for their appreciation. The dividend is a positive return no matter what the market does, and it's a big component of the total return.

Cash is king

Normally, holding cash is considered a bad thing because cash doesn't give any returns. In fact, it gives a negative return if you account for inflation. However, in a falling market (such as now) cash is king and gives better "returns" than if you were invested in the market.

Cash is not only a safe haven, but it can also allow you to buy assets on the cheap. Don't be afraid to hold a larger percentage of cash in your portfolio during a falling market, and take advantage of opportunities to dollar-cost average into quality businesses at discounts.

Precious metals

Precious metals are usually seen as safe havens. However, that doesn't always work out. Additionally, they don't pay dividends, so investors basically buy and hold them in the hope that their prices will rise.

If you're adventurous and a deep-value investor, you might consider companies that benefit from rising precious metals, such as **Goldcorp Inc.** (TSX:G)(NYSE:GG), which pays a dividend and has a safer balance sheet than most other miners.

Goldcorp has an investment grade S&P credit rating of BBB+ and low debt levels with a debt/cap of 12%. Goldcorp's yield of 1.9% is better than buying gold bullion; however, don't bet the farm on its dividend. No dividend relying on commodity prices is foolproof.

Conclusion

When the market falls, it's time to shop for quality businesses with stable earnings that have a history of paying dividends. Their dividends give you positive returns while you wait for the market to come back.

Don't be afraid to hold more cash than usual. If you're adventurous, consider precious metals stocks with solid balance sheets if you view precious metals as a safe haven.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Metals and Mining Stocks

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:RY (Royal Bank of Canada)

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