



How Diversification Benefits You

Description

We all know not to put all of our eggs in one basket, but instead we should spread the risk around. For stock investing, this means we shouldn't put all of our investment dollars in one stock or industry. After all, industries and individual stocks take turns outperforming and underperforming.

Let's say you have \$8,000 to invest. You should diversify it equally across four quality stocks in four diverse industries and place \$2,000 in each stock.

Utility

You might pick **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) as your utility holding because you like its international exposure as well as its above-average yield of 5.5%, which is supported by its roughly 90% contracted cash flows. Brookfield has increased its distribution for eight consecutive years.

Real estate investment trust

You might pick **Artis Real Estate Investment Trust** ([TSX:AX.UN](#)) as your real estate investment trust holding because you like that its portfolio is diversified across retail, office, and industrial properties and that its price has been under pressure due to its exposure to Alberta. It has a juicy yield of 8.4%, which is well supported by its funds from operations. Overlook the fact that Artis doesn't consistently increase its distribution.

Bank

You might pick **Canadian Western Bank** ([TSX:CWB](#)) as your bank holding because it's undervalued with a multiple of a little above nine. As the bank expands outside western Canada, it aims to deliver higher growth again.

In the meantime, Canadian Western Bank's 3.75% yield is rock solid because its payout ratio is only 35%. On top of that, the company has increased its dividend for 24 consecutive years.

Energy infrastructure

You might pick **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) as your energy infrastructure holding because it provides an essential product and service to the economy by transporting energy.

Its yield of 4.5% is solid, and it has increased its dividend for 15 consecutive years. In the next few years, TransCanada plans to continue increasing it by 8-10% per year.

Conclusion

In the past year, Brookfield Infrastructure declined 8%, Artis declined 15%, Canadian Western Bank declined 12%, and TransCanada declined 8%. If you'd only held one of these companies, your portfolio would have fallen from 8% to 15%, but by holding all four, your portfolio would have fallen almost 11%. In essence, you're spreading out the risk.

Generally, there are psychological benefits to holding a basket of quality companies, so when one falls, another may rise. Of course, all holdings can fall in the same period. Still, having \$2,000 in four companies makes it easier to hold on to those stocks than having \$8,000 in only one company. And you can collect a steady income stream from the dividends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:TRP (Tc Energy)
3. TSX:AX.UN (Artis Real Estate Investment Trust)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
5. TSX:CWB (Canadian Western Bank)
6. TSX:TRP (TC Energy Corporation)

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Date

2025/08/25

Date Created

2016/04/11

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