Nervous About Stocks? Hide Out in These Safe-Haven Assets

Description

After hitting a new 52-week high on Friday, October 21, the TSX Composite Index has steadily fallen, losing close to 3% of its value.

Now 3% isn't much; I'll be the first to admit that. But many pundits and market analysts think it could be the beginning of something much bigger. There's all sorts of uncertainty in today's market. Oil, a key driver of the Canadian economy, continues to fall. Overall economic numbers are tepid at best. And Donald Trump is gaining in the polls. If he emerges victorious on Tuesday, it could lead to a massive sell-off in global stocks.

Besides, it's prudent portfolio management to at least trim a little when stocks are hitting new highs.

Here are three choices for investors looking to cycle into something a little safer.

Preferred shares

Preferred shares are a hybrid security that are a little bit like bonds and a little bit like equities. They pay attractive dividends and are generally much more stable than the price of common stocks.

There are dozens of Canadian companies that regularly issue preferred shares as a way to fund internal growth, complete acquisitions, or use for general credit needs. Many of these companies have several different series of preferred shares, each with different rules and stipulations. It can get very confusing for a regular investor.

This is why **Claymore S&P/TSX Canadian Preferred Share ETF** (TSX:CPD) is such a valuable ETF. It gives investors access to the whole preferred share sector in one easy to buy package with a very reasonable management fee.

It also pays investors generously to wait with a 5% yield.

Bonds

Preferred shares are considerably less volatile than the market. The Claymore preferred share ETF has a beta of 0.49, which means it's only half as volatile as the stock market as a whole.

But even that might be a little too volatile for some. If stocks fall 20%, we could expect preferred shares to still fall 10%. That's still a very real capital loss.

Bonds are even more steady than preferred shares. Canada's largest bond ETF is the **iShares DEX Universe Bond Index Fund** (TSX:XBB)–an ETF that holds more than a thousand Canadian government and corporate bonds. It pays a dividend of 2.7%.

Bonds tend to move in the opposite direction as stocks. If the market has a meltdown, bonds usually go up as investors adjust their asset allocation accordingly. This is reflected in the ETF's beta, which is -0.02, according to Google Finance. This means the price of the ETF doesn't really do much of anything, but when it does move, it tends to be in the opposite direction of stocks.

Metro

During the last big bear market, one sector not only survived the carnage, but it actually saw positive results. I'm talking about Canada's grocery sector.

Metro, Inc. (TSX:MRU) is Canada's third-largest grocer, and it has a lot going for it. It continues to grow earnings at a nice pace, gaining market share in a crowded retail space. It trades at a reasonable 18 times trailing earnings and 16 times 2017's projected earnings. And shares are down 15% from their 52-week high as bullish investors exit the name for something more exciting. The opposite will happen if stocks start to head lower.

Metro also has all sorts of dividend-growth potential. It currently pays out $0.56 per share–a yield of 1.4%. It earned $2.31 per share in the last 12 months. That gives it a payout ratio of just 24%, which is much lower than average. Look for the company to continue giving investors an annual dividend increase for years to come.

The bottom line

I don't want to be mistaken for an alarmist, screaming for investors to sell everything before the world ends. I just think stocks are getting a little extended here. Trimming a few positions is a prudent move.

CATEGORY

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TICKERS GLOBAL

1. TSX:CPD (iShares S&P/TSX Canadian Preferred Share Index ETF)
2. TSX:MRU (Metro Inc.)
3. TSX:XBB (iShares Core Canadian Universe Bond Index ETF)

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