2 Stocks for an Anti-Fragile Portfolio

Description

What does it mean to be anti-fragile?

Anti-fragility in investing is a concept developed by scholar and former trader Nassim Nicholas Taleb. Something that is anti-fragile is not only capable of withstanding shocks, but it will actually thrive when exposed to volatility and stressors. Taleb offers weight lifting as an example of anti-fragility, as the body repairs torn muscle fibers and makes them stronger.

After the 2007-2008 Financial Crisis, Taleb recommended investors adopt an anti-fragile investing strategy. In this article, we will apply one key anti-fragile concept to some top Canadian stocks to add to our anti-fragile portfolio.

Target survivors

"Try to invest in companies that have some trouble in their past and have come back from it," Taleb recommends in his book *Antifragile*. Taleb says this is especially important after 2008. There are several examples of companies that experienced major turmoil during this period.

In the summer of 2008, **BlackBerry Ltd.** (TSX:BB)(NYSE:BBRY) stock was hovering around the $150 mark. The company was a premier smartphone manufacturer that had changed the game. By 2010, the stock price had halved, and the release of the BlackBerry Playbook tablet experienced disappointing sales. The company attempted to respond to competition from the **Apple Inc.** iPhone and Android smartphones, but by the beginning of the decade, the tide had turned.

BlackBerry's stock reached the single digits in 2012 and was in an existential crisis. On November 4, 2013, BlackBerry installed John Chen as CEO, who was renowned as an executive well suited to turnarounds. BlackBerry has since transitioned to a focus on software, making numerous strategic acquisitions and establishing itself as a premier provider of cybersecurity platforms. The stock has almost doubled since the arrival of Chen in 2013.

By now, most Canadian investors are familiar with the story of **Home Capital Group Inc.** (TSX:HCG). Home Capital Group had established itself as one of the top alternative lenders in Canada, and the stock price reached an all-time high in late 2014. In 2015, the company suspended 45 brokers for the creation of mortgages with fraudulent income information. Further, in March 2017, president and CEO Martin Reid was fired and several officers and directors were served with enforcement notices from the Ontario Securities Commission (OSC).

In April 2017, the OSC accused the company of misleading investors, and the stock price plunged into single digits for the first time since 2008.

Since then, **Berkshire Hathaway Inc.**, the multinational conglomerate run by Warren Buffett, made a $400 million equity investment in the company on June 22. Home Capital Group has undergone a complete internal restructuring of its business practices and strategies. On August 29, it announced the installment of new CFO Brad Kotush.

Home Capital Group now begins a reset in the midst of a major housing correction in Ontario and the potential for further regulations imposed by the government that could slow sales growth. The worst appears to be over for the alternative lender, and it will be a remarkable test case in anti-fragility.

CATEGORY

1. Investing

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1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:HCG (Home Capital Group)

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