3 Tips to Improve Your Portfolio's Defence

Description

There are different ways to improve the defence of your portfolio depending on what you find to be risky. Here are some things you can check to see if improvement is needed.

Diversification

On the Business News Network, an investor called in to ask if he should continue holding or selling some of his Canadian bank shares, which made up 50% of his portfolio.

Now, there's no doubt that **Royal Bank of Canada** (TSX:RY)(NYSE:RY), **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), and the rest of the Big Five Canadian banks are great businesses and have delivered excellent returns and income for their shareholders over the long run. However, it can be too risky to have 50% of one's portfolio in them.

Typically, investors should be careful if they have more than 25% of their portfolios in a specific sector or industry. This is to avoid huge drawdowns (and to protect your net worth) in the event problems arise in a specific sector or industry. And this is especially important if you need to sell shares to generate income.

How much should you have in a specific stock? For bigger portfolios, one might limit it to at most 2%. For smaller portfolios, one might limit it to at most 5%. This is to avoid huge drawdowns in the event that company-specific problems occur.

However, it also depends on how much conviction you have in the company. The higher the conviction you have in the quality and long-term prospects of a company, the higher percentage of that stock you'd allow in your portfolio.

Dividends

Are you taking advantage of dividends? Not only are dividends more favourably taxed than interest income and your job's income, but they are also more reliable than price appreciation if they come from businesses that generate stable earnings or cash flow.

The Canadian banks offer safe yields of ~3-5%. So do the Canadian telecoms, including **BCE Inc.** (TSX:BCE)(NYSE:BCE). If you're aiming for a 6% rate of return from your portfolio, getting ~3-5% from safe dividends is a conservative way to secure more than half of the returns for your goal.

Is your portfolio growing fast enough for your future needs?

If you determined you need to grow your portfolio at a rate of 8%, but in the last few years, it's only grown by 6%, then you might want to rework your portfolio to be more growth oriented.

Perhaps you might sprinkle your portfolio with some higher-growth stocks, such as **Open Text Corp.** (TSX:OTEX)(NASDAQ:OTEX). Due to the company's earnings and cash flow growth, it has been growing its dividend per share by +15% per year for the last few years. The tech company continues to consolidate in a growing industry, so it still has good growth prospects.

Increasing your savings rate and putting excess dollars in investments that matter can also help your portfolio to grow faster.

Investor takeaway

There are a few simple things you can do to improve your portfolio's defence: ensure your portfolio is well diversified across industries and businesses that generate reliable earnings and cash flow; see if you're using dividends as a part of your strategy; see if your portfolio is growing fast enough for your future needs.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. NYSE:BCE (BCE Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:TD (The Toronto-Dominion Bank)
5. TSX:BCE (BCE Inc.)
6. TSX:OTEX (Open Text Corporation)

7. TSX:RY (Royal Bank of Canada)
8. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/09/12
Date Created
2017/10/12
Author
kayng