
# Beat the Market With Reduced Risk

## Description

The long-term returns of the U.S. market have been ~10%, including inflation. The Canadian market tends to perform worse than that due to its meaningful exposure to the energy and materials sector, which can be quite volatile. As we've seen, lately, the oil and gas sector has generally been a poor performer. Currently, the Canadian market has a combined ~30% weighting in the energy and materials sector.

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So, let's say we aim for a rate of return of +10% in order to beat the market. To lower the risk of investing and also boost the potential for upside, there are several things investors can focus on: large caps, value, and dividends.


### Large caps

Large-cap companies have proven themselves over time by growing from small cap to mid cap and finally becoming a large cap. As a result, investing in large caps over small- or mid-cap companies significantly reduces risk. If you're really risk averse, invest in the leaders of stable industries.

### Value

Not all large-cap companies are good values today. To increase your chance of getting good returnson your investment, you can strive to invest in stocks when they're undervalued.

The tricky thing is the valuation of a company changes over time. For example, in a news release by the Federal Energy Regulatory Commission, it ruled to not allow "master limited partnership (MLP) interstate natural gas and oil pipelines to recover an income tax allowance in cost of service rates."

In response to this news, the stocks of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) fell +4% and +2% on Thursday. Their corresponding MLPs obviously took a bigger hit with **Enbridge Energy Partners, L.P.** (NYSE:EEP) down +17% and **TC PipeLines, LP** (NYSE:TCP) down almost 18%.

The long-term stories of Enbridge and TransCanada remain intact, though. Oil and gas need to be transported, and electricity must be used in all economic environments.

Based on Thursday's market close prices, Enbridge and TransCanada are undervalued by 21% and 27%, respectively, according to the consensus 12-month targets from **Thomson Reuters**.

**Dividends**

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Safe dividends allow investors to get a positive return and real cash, even as stock prices fall. Enbridge and TransCanada generate sufficient cash flow to cover their dividends. Although both companies have guided dividend-growth rates of 8-10%, to be more conservative, investors can expect them to continue growing their dividends by 5-10% per year for the next few years.

The depressed share prices have pushed their yields to the high ends of their historical yield ranges. Enbridge and TransCanada offer juicy yields of 6.2% and 5.8%, respectively.

**Investor takeaway**

Macro factors, such as higher interest rates and changes by regulators, will affect companies' profitability. However, for large-cap industry leaders, which have been around for a long time and have grown their dividends for a number of years, the dips caused by macro factors will serve as long-term buying opportunities as the companies adjust to the new environment.

By investing in large-cap industry leaders, which pay growing dividends and are priced at a margin of safety, investors increase their chances of beating the market with reduced risk.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)

4. TSX:TRP (TC Energy Corporation)

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**Date**
2025/08/23
**Date Created**
2018/03/16
**Author**
kayng

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