Income Investors: Could a Market-Wide Rise in Volatility Impact Conservative Investments like REITs?

Description

Rising interest rates aren't great news for the REITs, but that doesn't mean retirees should throw in the towel on them, since they still play an essential role in a conservative portfolio of a retired person. They offer high income payouts that are ridiculously stable, so you'd be pressed to find a stable yet high payout in other areas of the market.

Moreover, with the recent surge in market-wide volatility, it'd be a very wise move to remain exposed to lower-beta REITs versus stocks if you don't have the stomach for wild swings. REITs, on average, are less vulnerable to amplified volatility spikes, even though there are a wide range of ETFs that traders can scoop and dump at a whim.

Think about it from a trader's point of view. There really isn't money to made over the short term by trading REITs like you would stocks. REITs are high-yield plays that primarily reward those who stick around over the long haul.

As such, there's little to no incentive to trade such ETFs. That doesn't mean REITs are immune to market-wide volatility swings, however, as the very existence of ETFs, I believe, has caused amplified volatility across all publicly traded investment instruments — more so with high-growth ETFs though, where it's possible to make a quick buck, and less so with high-yielding ETFs, where one would be pressed to make a buck over a short duration of time.

REIT ETFs like the **BMO Equal Weight REITs Index ETF** (TSX:ZRE) are primarily long-term holdings, and if you're a retiree, you should have no worries if market-wide turmoil finds its way into lower-beta securities like REITs. As long as you're focused on the bigger picture, you'll receive the monthly income, and the reversion to the mean will be reached if it's found that market-wide volatility is spreading across securities that would have been typically been more "bond-like" in nature.

As such, instead of spending all of your monthly income received from your portfolio, you may want to save a bit on the sidelines in case wild market swings end up causing an unwarranted dip. The ZRE ETF remains my favourite in spite having an MER at the high end. It has a greater exposure to mid-cap

REITs that may offer superior growth. In addition, you'll get a higher-than-average yield at ~5% than any other REIT ETFs on the Canadian market today.

Bottom line

Even in an age where we'll need to cope with higher levels of volatility (thanks to the rise in popularity of ETFs), REITs will remain low-volatility plays in spite of numerous ETF offerings. One may expect slightly exaggerated swings, however, in the event of headwinds unique to the real estate sector or if market-wide volatility spreads to lower-beta securities. Such dips may be harder to handle for a conservative investor; however, these are opportunities to add to a position before shares revert to their mean.

For investors who are unsure what to buy on such swings, the ZRE ETF is one of my favourite options that conservative investors should feel comfortable owning through thick and thin.

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