Do You Want to Protect Against Market Volatility?

Description

Have you felt like the market has been uncharacteristically volatile? You're not alone.

It's been a wild start to the year. In the first quarter of 2018, there were 22 days when the markets swung by more than 1%. In comparison, there were only eight such days in 2017.

There is a reason why many are predicting a market crash. Can you guess when markets last saw this much volatility? Yep, during the financial crisis in 2009.

In a recent poll, 76% of respondents believe the current volatility signifies the end of the bull market. General consensus also points to continued volatility throughout the year.

Maybe they're right. Maybe not. The question is, how can you protect against market volatility?

The right asset mix

If you are invested in equities, there is no way to completely eliminate risk. The key is building a portfolio with the right asset mix. The TSX is heavily weighted towards three sectors; financials, materials, and energy.

Look beyond these sectors. There are plenty of high-quality, low-risk industrial stocks that can add a level or protection to your portfolio — stocks such as **CAE Inc.** (TSX:CAE)(NYSE:CAE).

Global leader

CAE provides training for the civil aviation, defence and security, and healthcare markets. For 70 years, the company has been at the forefront of innovative designs and integrative training solutions.

It has one of the largest global presences in the industry and has operations in 35 countries.

CAE is one of only a handful of TSX-listed companies in the aerospace and defence industry.

Strong moat underpins premium valuation

Make no mistake, the company is not cheap. It trades at 20 times earnings, a price-to-book ratio of three and price-to-sales ratio of 2.34. *Don't be scared off!* There is a reason why it isn't cheap.

The company has a strong moat and is one of the most recognizable brands in the industry. It commands a premium. The company rarely trades below its historical P/E ratio of 18. In the past 20 years, it has only done so twice.

Low volatility, less risk

If you are concerned about volatility, look for a company's beta. A company's beta indicates its stock price volatility in comparison to the market. A beta under one signifies less volatility and less risk.

CAE's beta is 0.59, which indicates that it is almost half as volatile as compared to the market.

Strong performance and outlook

Since 2015, CAE has only missed analysts' earnings estimates once and beat them nine times. Analysts have an average overweight rating on the stock with six buys and no sells.

CAE's total order backlog was $7.4 billion as of December 31, 2017. That's equal to multiple years' worth of revenue. It has one of the highest returns on equity and profit margins in the industry. Earnings are expected to be strong and increase 14% next year.

Oh, and did I mention it is a Canadian Dividend Aristocrat? On average, it has raised dividends by double digits for 10 straight years.

Tired of the volatility? CAE may be just what the doctor ordered.

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Date
2025/08/25
Date Created
2018/05/10
Author
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