Is Your Stock Portfolio Prepared for a Market Crash?

Description

We have been in a bull market for nine years. Historically, every 10 years or so, we would experience a market crash for whatever reason.

The crash of 2008 was triggered by subprime mortgages in the United States. This was something that wasn't foreseen by many. However, there are things that we can do now to prepare our stock portfolios for future market crashes.

First, make sure you own businesses that remained profitable or, better yet, thrived during the last crash. Second, decide if you need to position your portfolio to be more defensive, given that we're close to that 10-year mark.

Businesses that remained profitable in the last crash

Start by thinking about businesses that offer essential products and services that we use every day. You might think of electricity, gas, the internet, mobile phones, housing, banking services, food, etc.

So, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), **Telus Corporation** (TSX:T)(NYSE:TU), **InterRent Real Estate Investment Trust** (TSX:IIP.UN), **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), and **Loblaw Companies Ltd.** (TSX:L) is a good list of companies to begin your research.

Hold low-beta stocks

To make your portfolio more defensive, it could mean putting a bigger focus on stocks that tend to be less volatile than the market. Algonquin, Telus, InterRent, and Loblaw fit this description by having low betas. Surprisingly, Bank of Nova Scotia stock does not.

Hold dividend stocks with growth

Bank of Nova Scotia adds defensiveness in a different way — it offers a very comforting dividend yield of almost 4.4%. Its stable earnings and safe payout ratio assures a solid dividend that can withstand any storm.

The reliable long-term growth of the company has also led to increasing dividends over time. You can probably expect dividend growth of 5-8% per year for the next few years.

Build a cash position

If you're really worried about a crash, save up more cash, perhaps 10%, 20%, or even 30% of your portfolio — basically, whatever percentage you feel comfortable with.

There is an opportunity cost for putting cash on the sidelines. However, you should not feel like you have to invest every dollar when you don't see enough bargains lying around.

Stocks that are potentially undervalued

Algonquin looks undervalued from a price-to-cash-flow basis and offers a nearly 5.2% dividend yield.

Loblaw also looks undervalued given that it tends to command a premium price-to-earnings multiple. Since it acquired Shoppers Drug Mart, Loblaw stock has had a normal multiple of about 17.6, while at below $68 per share, it trades at a multiple of about 14.9.

Reasons for Loblaw's discounted valuation include increased labour costs and healthcare reform, which will cut into its profitability and curb near-term growth. Over time, the largest retailer in Canada should be able to adjust to the new normal. Now is the best time to buy Loblaw stock since 2012.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:BNS (The Bank of Nova Scotia)

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7. TSX:L (Loblaw Companies Limited)
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