



The #1 Way to Reduce Your Stress Levels in Volatile Markets

Description

Volatility has reared its ugly head this year, leaving many investors shaken. After a peaceful 2017, investors who like a more relaxed ride in the stock market have been somewhat shaken by the turmoil that has marked most of this year. For long-term investors, the market noise should not be much of an impediment to a multi-year plan. In fact, the best strategy is to not look at the market much at all, ignoring the day-to-day fluctuations.

For some investors, it can be difficult to stay away from the screen. For them, the market turmoil can be incredibly stressful, leading them to make poor investing decisions, as they watch their capital melt away. For these investors, there are two options that may reduce some of the stress of a chaotic market: they can sell their holdings and put the proceeds into cash or invest their money in low-volatility alternatives.

Although cash is beginning to become a more viable option once again, yields are still relatively low. Interest rates are creeping up, but GICs are still only yielding around 3% for a five-year term, making them not terribly attractive. Capital is preserved, but there is no potential for capital appreciation as well.

An alternative to going to cash is to look at low-volatility options. This can be done in two ways: invest in [a low-volatility ETF](#) or in individual, low-volatility stocks. One of the largest listed on the TSX is the **BMO Low Volatility Canadian Equity ETF** ([TSX:ZLB](#)). This ETF is focused on low-volatility Canadian companies only.

Using an ETF such as ZLB provides investors with decent returns, while diversifying across various industries. Currently, the ETF also offers a decent yield of about 2.62% at current market prices. Many Canadian utility, telecom, grocer, and pipeline companies are holdings in this ETF. The ETF seeks to give investors who do not wish to stock pick a one-stop shop for low-volatility returns.

The downside to using the ETF is the fact that there is a fee involved. While the management expense ratio is not extremely high at 0.39%, it is still higher than a plain index fund, many of which cost less than 0.1%. This fee is mitigated somewhat by the fact that many online brokers allow you to buy ETFs for free, although investors need to check with their individual brokers to see if this service applies.

One other downside to buying an ETF is that you may not want to own some of the stocks within it. Even if you choose not to buy the ETF, you can still make use of it to pick the stocks you do want to buy. Each ETF lists its complete list of holdings on the company website. To choose a low-volatility stock for your portfolio, you can simply check through the list to see if the company you want to buy is in the low-volatility ETF. If it is, you can be relatively assured that you are purchasing a low-volatility company for your portfolio.

If you want to purchase **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)), for example, you will see it is listed as a holding, assuring you that you have probably made a low-volatility purchase. You will be able to take advantage of its full dividend — Fortis's dividend is [currently around 4%](#) — and growth outlook of the individual company, but you will be fully exposed to its risks as well.

Remember, though, that by purchasing equities, even low-volatility equities, that you are not eliminating volatility. If you look at ZLB's chart, it still experiences the ups and downs of the market. The goal of the ETF is to try to reduce volatility, not eliminate it. Also, by stock picking, you will be increasing your volatility, even with a relatively low-volatility company, since you lack diversification across industries. Nonetheless, investing in low-volatility equities, whether through an ETF or individual stocks, should help you to better brave the turmoil of the stock market in chaotic times.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)
3. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)

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