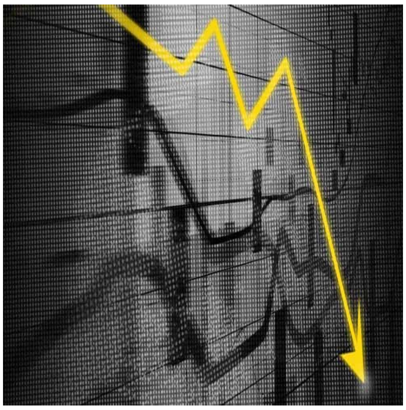

Stock Markets Stumble Worldwide: Time to Get Defensive?

Description

Let's assume two things: first, your portfolio already contains its fair share of financials and utilities; second, what markets worldwide saw Friday will happen again — or worse.

Going back to that second point: if you didn't catch the news Friday, stock markets worldwide took a hit on worries that the U.S. will go ahead with broader tariffs on Chinese goods alongside uncertainty over a new NAFTA agreement. In short, U.S. policy is roiling the markets.

To return to the first point: most Canadian investors have positions in financial stocks, and well they should, as well as key utilities, mostly energy. Now is a good time to get defensive with your investments, so you would be wise to hold both. Below are two stocks that would make great additions to an energy portfolio and carry a low exposure to oil, thereby reducing volatility. Let's take a closer look.

Inter Pipeline (TSX:IPL)

Operating in the transporting and storing of petroleum as well as the processing of natural gas liquids, and engaged in both Canada and Europe, Inter Pipeline is a major player in the energy business. It's also a great stock to buy if you want to start getting defensive and you're already heavy on financials.

Overvalued by about 50% of its expected future value as per cash flow, Inter Pipeline isn't exactly what you might call a bargain stock at the moment. Its market fundamentals aren't too bad though, with a P/E of 15.9 times earnings and a P/B ratio of 2.5 times book. However, what might turn investors off is a contraction of 4.9% in expected earnings over the next one to three years.

In terms of quality, Inter Pipeline is a bit mixed. While its return on equity was a so-so 16% last year, and the dividend yield on offer is a high 7.14%, Inter Pipeline's debt of 149.4% of net worth is a little steep. Still, it looks like a strong buy from here, and there are far worse debt levels and valuations on the TSX index — and that dividend yield does look tempting. Buy it and stash it in your TFSA or RRSP for the long term.

STEP Energy Services (TSX:STEP)

If you know your energy stocks, then you'll know STEP Energy Services. One of the best energy-related stocks out there if you want to be low on oil exposure but high on ubiquity in the industry, STEP Energy Services is a great stock to buy if you want to dig your heels in. Offering coiled tubing, pumping, fracturing, and chemical lab solutions, STEP Energy Services is famous in the field and a well-known ticker on the TSX.

Discounted by more than 50% of its future cash flow value, STEP Energy Services looks like a clear win for the value-focused investor today. A P/E of 7.6 times earnings is low, as are a PEG of 0.2 times growth, and P/B of 0.9 times book. A big 39.2% expected annual growth in earnings also puts STEP Energy Services ahead of the game here.

Don't expect a dividend from these STEP Energy Services; rather, hold on for fairly well-assured long-term capital gains. A return on equity of 11% and debt of 57.8% of net worth go towards a stock of middling quality, but neither percentage should put off a dividend investor looking to buy and hold for a while.

The bottom line

With uncertainty rife in the markets, and potentially much more to come, it makes a lot of sense to get defensive with your investments at the moment. The two stocks offer a lucrative way to assure some passive income for the years ahead while staying in defensive positions in the energy industry without being overly exposed to oil prices.

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