Long-Term Investors: How Dangerous Is This Lack of Momentum?

Description

Classically defensive mid-caps should offer low-risk TSX investors a place to hide, with high expected ROEs and minimal debt; however, after trawling through the energy and consumer retailing sections of the top Canadian stock exchange, it's tough to find truly all-weather stocks to pack in a portfolio for testing times.

Food stocks like **George Weston** (TSX:WN) that have negative year-on-year past earnings mitigated by longer-term past earnings-growth rates aren't rare on the TSX index. However, a 2.6% expected annual growth in earnings counts this one out for growth investors, while a 15.1 ROE doesn't signify the most efficient use of shareholders' inputs.

Unfortunately, it seems that a number of consumer cyclicals and utilities lack the upward momentum that has, until recently, augmented a satisfying spread of good value, profitability, and reliable dividends. Depending on one's investment style, stocks that lack significant upside may still be of interest to holders of long-range portfolios, though it calls for some extra research.

Solid growth stocks are becoming harder to find

So, are stocks like these suitable for a long-term position? A low-risk investor might shy away from a stock with a balance sheet like George Weston's, carrying a comparative debt level of 119.4% of net worth, while a value-focused, passive-income investor will have to weigh slightly high multiples (such as a P/E of 23.1 times earnings and P/B of two times book) against moderate dividends (such as a yield of 2.22%).

Moving onto energy stocks … unfortunately, there's not much to excite a growth investor in the shareholder returns data for stocks like **Canadian Utilities** (TSX:CU) at the moment. Canadian Utilities insiders have only sold shares over the last few months, with steady selling throughout the past year as a whole. Looking ahead, a low 5.2% expected annual rise in earnings doesn't bode well if growth is your thing.

Are utilities stocks slowing down for 2019?

Though Canadian Utilities's one-year past earnings growth of 26.8% is positive, would-be investors may want to ask themselves whether a stock carrying a comparative debt level of 159.8% of its net worth suits their long-term strategy, while so-so variables vie with a fairly decent dividend yield of 4.69%.

A drop of 7.7% expected annual growth in earnings is in the cards for **TransAlta Renewables** (TSX:RNW), though its P/E of 14.3 times earnings and market-weight P/B of 1.5 times book pair well with a mostly clean balance sheet typified by a debt level of 38.9% of net worth. This is more the type of lower-risk stock a long-term investor should be looking for — or at least it would be if it's outlook were positive.

TransAlta Renewables's earnings past 12-month growth has exceeded the Canadian renewable energy industry average for the same period (see TransAlta Renewables's 2,522.2% against the industry's 114.8% if you want an idea of comparative returns). Its dividend yield of 7.14% is also high for the TSX index, making for a golden stock in all but earnings outlook.

The bottom line

Energy stocks could be looking at a tough year ahead if the current trend continues, though other attributes are in their favour. While investments could shed value in time, the utilities industry and certain areas of the consumer cyclicals sector are defensively positioned; would-be buyers should do their homework when it comes to dividend payments, however, and be sure that any long-term position carries as little risk as possible.

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