1 Easy Way to Reduce Risk in a Long-Term Portfolio

Description

With one PR setback after another hitting one of the NASDAQ's most famous tech players, let's take a look at a Canadian energy stock that offers the potential for stability and passive income, instead of the fear of lost capital. With below-threshold debt at 39.4% of net worth and a P/B ratio of 1.6 times book, the following TSX index super-stock combines a solid balance sheet with market-weight valuation to create one easy way to reduce risk in a long-term portfolio.

The case for Canadian energy

Stocks like **Suncor Energy** (TSX:SU)(NYSE:SU) can lend a bit of extra defensiveness to a long-term portfolio, and are exactly what investors should be packing ahead of high-profile tech stocks at the moment. Buying any stock with a so-so balance sheet or less-than-ideal outlook in earnings growth should be counterweighted by an investment in something good and solid, and the data indicates a winner here.

On the up since the holiday season, this stock is showing a bit of skyward momentum, with more shares being bought than sold by Suncor Energy insiders in the last few months, and in high volumes. In fact, over $3 million worth of Suncor Energy shares have been bought by the company's extended circle of investors in the know over the last three months, indicating significant confidence in future performance.

Meanwhile, in the sin bin…

Up 0.61% in the last five days, it seems that shareholders of the famous NASDAQ-listed social media giant **Facebook** (NASDAQ:FB) are unfazed by the kind of bad PR that might sink a lesser-known operator. While certain stats may make this stock look appetizing (such as a past-year ROE of 26%, low debt at 0.6% of net worth, and a not-obscene P/E of 22.2 times earnings), danger abounds nevertheless.

Continuing with what looks so appealing about this stock, we see a good track record join a squeaky clean balance sheet, with the former facet delineated by a one-year past earnings growth of 38.9% and a five-year average growth rate of 48.2%. Even a P/B of 5.8 times book doesn't look too bad (though it clearly signifies overvaluation).

The real fly in the ointment is a mediocre 11.3% expected annual growth in earnings. Ordinarily, this wouldn't figure be too much of a concern – indeed, few of the best TSX index stocks manage to break 20% in this area. But this is Facebook we're talking about – the head of the FAANGs – and to see analysts casting shade on a publicly embattled company's prospects is worrying.

In contrast, Suncor Energy's 20.6% growth in earnings over the next one to three years is indicative of a stock that a low-risk investor may want to buy and hold for the long-term, while its 3.75% dividend yield puts it among the main core of TSX index all-weather companies to buy for passive income.

The bottom line

Facebook's humdrum outlook in expected earnings coupled with a lack of dividends and a string of worrisome headlines should be enough to put off the risk-averse investor. Contrast this situation with something solid like Suncor Energy, with its stable (over 3%) dividend yield matched with some decent expected earnings growth and near-market valuation.

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