What Should You Do in This High Market?

Description

The North American stock markets are at it again, trading at near all-time highs. Here are three things you can do in this high market.

Buy and hold quality dividend stocks

Ideally, you've got an investment strategy that can be used through economic cycles. So, you don't need to change your strategy when the market turns on you. Buying and holding quality dividend stocks that offer decent yields is one such strategy.

Holding a stock like **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is both a defensive and offensive strategy. With an annual payout of $3.48 per share, equating to a decent yield of roughly 4.8% at $72.60 per share as of writing, shareholders can get good income from the stock, even if the stock market does take a dive. If the market continues heading higher, BNS stock will also do well.

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In the last two decades, the diluted earnings per share of the international bank stayed stable or increased except for two years in which it had a double-digit decline. The last time that happened was in fiscal 2008, during the last financial crisis. That type of event occurs once in a blue moon and has proven to be an awesome buying opportunity. From the low of the crisis, BNS stock has delivered annual total returns of 13%, despite the 13% decline from the high of November 2017.

Simply put, buying BNS stock when it's relatively cheap and holding it for the long haul can generate excellent returns when it reverts to the mean, as well as getting juicy income along the way.

Hold a bigger percentage of cash

If you're invested in the market and don't find any stocks from your watch list that are attractively priced, there's no reason to force yourself to invest the cash you have on hand. If you do, you'd be taking on higher risk by investing at higher prices.

Simply collect your dividends and continue with your normal course of saving from your paycheques and stash the money in short-term GICs.

Invest in mispriced stocks

Investing in opportunistic or mispriced stocks for short-term trading is a riskier endeavour than accumulating cash or buying and holding quality dividend stocks.

Typically, when stocks look mispriced, there's something that's weighing them down. For example, energy stocks like **TORC Oil and Gas** seem cheap. Specifically, TORC has nearly 37% upside potential according to the mean 12-month target of **Thomson Reuters**, but the stock has above-average volatility due to the volatility of the underlying commodity prices.

Investor takeaway

In a high market, it may be hard to do nothing. However, that's how wealth is created — by investing in quality dividend stocks for the long haul. By doing nothing with a quality dividend portfolio, you'll end up with a higher percentage of cash in a high market (because you'll be doing nothing with the cash).

Alternatively, you can use a portion (perhaps up to 20%) of your portfolio to invest in mispriced stocks for short-term trading, aiming to boost total returns. Needless to say, this is a higher-risk strategy and is not for everyone.

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