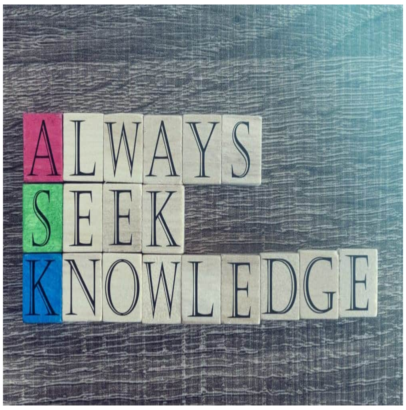


2 Potential Black Swan Factors Canadian Investors Need to Know About

**Description**

When the unexpected strikes, the stock markets usually take a hit. 2001's dot-com bubble, the U.S. housing market crash, and the 2008 Zimbabwe hyperinflation are all examples of black swan events – almost entirely unforeseeable curve balls, and catastrophic in their effect on the stock markets.



Unfortunately, the very nature of a black swan event renders it next to impossible to predict. That said, the following two distinct threats could converge with ongoing factors such as the U.S.-China trade war to make for the perfect storm.

## Where could the risks come from?

One distinct possibility is that the dual threats of overvaluation and a sudden loss of appetite for risk may come home to roost simultaneously. In this scenario, sell-offs in once highly prized investments, such as some distinctly overweight tech stocks, may cause entire sectors to sink suddenly. Something similar happened last fall, when the tech sector took a battering on privacy issues and other bad PR in the social media space, although it was not particularly severe.

Another possible area of risk would be a sudden serious oil bottleneck heavily impacting per-barrel prices and roiling the energy sector. Venezuela and Iran spring to mind, with the possibility of a big bottleneck causing hiked oil prices to clash with a domestic economic slowdown. Indeed, the seeds for both long-term higher oil (and resultant inflation) and a slowing economy have already been sown; the combination of the two could spell recession.

## What should I stay invested in?

**TSX Index** stockholders looking to stay invested in defensive positions may want to hold onto stocks such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and get rid of companies that have been overspending or allowing their debts to mount. Indeed, any stock that is at low risk of insolvency and occupies a core area of the economy is a fairly safe bet, with banks, utilities, and some infrastructure assets fitting the bill.

TD Bank is fairly static in terms of share price, and is something of a bellwether for Canadian banking stocks in terms of volatility. Indeed, the TSX Index itself shows similar volatility to TD Bank's share price, making the banker something of a *de facto* indicator of the performance of Canada's biggest stock exchange.

In terms of solidity, a one-year past earnings growth of 10.6% and five-year average of 10.1% show a certain sluggish dependability, while a sufficient allowance for bad loans speaks to a sturdy balance sheet. It's a decently priced stock, with a price-to-earnings of 12.3 and an acceptable dividend yield of 3.98% backed up with an expected 9.2% growth in earnings.

## The bottom line

The main issue with TD Bank as a suggestion for a stock to hold during a U.S.-led market downturn would be its exposure to that particular market, so a stock with less exposure to the U.S. might therefore suffice. Ever since the American yield curve inverted earlier in the year, the threat of a recession has been in the financial headlines; should it occur, sturdy TSX Index banking stocks may be among the safest places to hide in the long run.



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