

How to Get Your Portfolio Ready for a Bear Market

Description

With the North American stock markets trading near their all-time highs, the occasional [wake-up calls](#) on down days are great reminders that there will be a bear market ... eventually.

No one knows when it would occur. It could start tomorrow, next year, or a few years later. It will be too late to prepare your portfolio when the bear has arrived already. Don't be the guy in the picture below. Instead, populate your portfolio with low-risk dividend stocks that have stock price strength at good valuations now!



Low risk

Low-risk stocks have incredible underlying businesses that are profitable throughout cycles — even in recessions! These businesses increase their profitability in the long run.

For example, despite having setbacks in the last financial crisis, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) still managed to double its earnings per share from 2007 to 2018. This equated to awesome earnings growth of 6.5% per year.

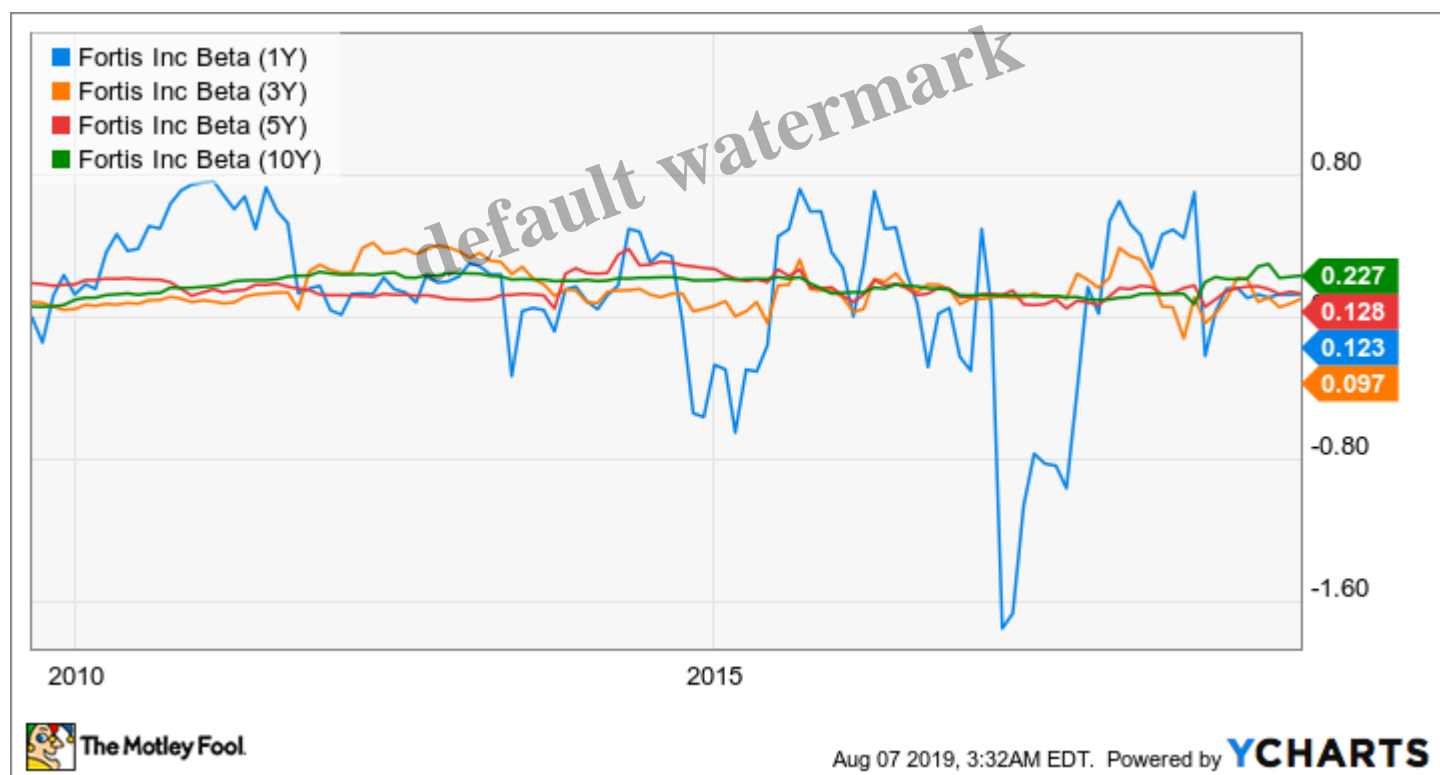
The utility leader, **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)), also achieved similar results. In the same period, it nearly doubled its earnings per share, which equated to earnings growth of 6.4% per year.

Both stocks offer secure dividends, which are important in helping investors to hold on to their shares in a bear market. Rock-solid Royal Bank and Fortis have increased their common stock dividend per share by 8.3% and 7%, respectively, annually, in the past five years. And they're good for yields of 4% and 3.4% right now.

Stock price strength

Having stock price strength can refer to stocks that have greater resilience compared to their peers. For example, Royal Bank stock trades at above its 50-day simple moving average, while several of its peers are trading below.

Fortis stock has a very low beta, which means that it falls much less than the market when the latter drops (and vice versa).



FTS Beta (1Y) data by YCharts.

Stocks that fall less than the market or have stock price strength over their peers are easier to hold on to versus stocks that can fall 10-20% a day.

Valuation

Buying [stocks at good valuations](#) will help reduce the chance of stock price declines due to valuation

contraction, a very common way of destroying capital.

If you overpay for a stock, when a bear market arrives, you'll likely experience a bigger drop in the stock than if you bought it at a good valuation.

Right now, it's more likely for Fortis to experience multiples contraction than Royal Bank because the latter is better valued. Therefore, investors should consider buying Royal Bank over Fortis today.

Foolish takeaway

To help prepare for a bear market, seek to invest in low-risk dividend stocks that have stock price strength at good valuations — starting with Royal Bank.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:FTS (Fortis Inc.)
4. TSX:RY (Royal Bank of Canada)

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