These Toy Stocks Could Be a Recession-Proof Play

Description

As the U.S.-China trade war continues to intensify, alarming pundits and dismaying investors, only the most bullish are seeing a positive second half of 2019. While a breakthrough in Sino-American relations could see the stock markets bounce appreciably, wary investors are eyeing the macroeconomic landscape for signs of a tipping point into full-scale bearishness.

While that tipping point has yet to materialize — and may, in fact, fail to do so — there's no harm in adding stubbornly defensive companies to a stock portfolio. From utilities to apartment REITS, there are some solid choices out there. However, let's take a look at two options in a sector that may have escaped attention.

Toys are a potentially recession-proof investment

Durable goods can be a risky area of investment, but the key factor that makes toys a recession-busting area is the fact that they cater to an eternal demographic — kids. No matter what happens to the economy, the market for toys is evergreen, and on the TSX there are some solid choices for a long-term play. These boil down to a couple of strong stocks: one a long-term capital gains play and the other a diversified dividend payer.

Spin Master (TSX:TOY) has been having a great few days, up 8.3% after a solid Q2 that saw year-on-year increases in revenue (up 3%), gross product sales, and gross profit (up 7.2%). While sales and admin costs had increased by 11.3%, this was due in part to reinvestment in distribution centres in support of global growth. Indeed, it's this focus on growth that makes the stock worth growing.

The stock is worth snapping up once it becomes a bit cheaper again, with a wealth of partnerships and licensing deals that assure growth down the line. As a long-term investment for upside, Spin Master is in the right industry to weather a downturn, with a wide enough economic moat to reassure the investor with a broad financial horizon.

Fairfax Financial Holdings (TSX:FFH) bought out the Canadian unit of Toys "R" Us last year, which is why you may have noticed that the home of the big cartoon giraffe is still doing business on the high street. Fairfax snatched the toy company from obliteration in June for a bargain $300 million. The benefit of getting invested in Fairfax over Spin Master is the former's dividend, currently yielding 2.16%. While it's not a pure-play option, Fairfax is growth-focused and diversified.

Fairfax is a smart play for retail, holding several recognizable brands such as Golf Town and Sporting Life. Fairfax has a knack for purchasing familiar brands in niche markets with an assured target consumer base. With an asset value that's increased annually by approximately 20% under the management of billionaire businessmen Prem Watsa, Fairfax is in the business of casualty, life, and property insurance — a recession-proof industry if ever there was one.

The bottom line

One of the benefits of a selloff is that it can create value opportunities for investors who had been sitting on their hands. A good case in point would be the recent drubbing stocks took as the U.S.-China trade war intensified last week, followed by investors buying the dip. In short, if the beginning of a correction weakens stocks in durable goods, anything related to toys would be worth snapping up and holding on to.

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1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:TOY (Spin Master)

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