2 Dividend Stocks Not to Buy in a Down Market

Description

Recessionary fears are heating up the headlines this week. Many consumers and investors are worried that the strong business cycle is ready for a pullback. It doesn't help that there are concerns surrounding the U.S. trade war with China.

The market is certainly volatile right now — so volatile that even high-growth marijuana stocks are struggling to bring in returns. Of course, this is just a reminder for all Fools out there of why investing is a long-term endeavour. Any cash you need in the next five years should be kept in safe assets like Guaranteed Investment Certificates (GICs).

Down markets are the perfect time to buy into the stock market. Canadian investors, in particular, may want to look into picking up bank stocks to secure long-term savings. Banks have the backing of the federal government and issue high dividends to shareholders.

Canadian investors more concerned over which stocks they should avoid in a pessimistic market should know that oil stocks may be the least strategic investment choice. Stocks like **Encana** (TSX:ECA)(NYSE:ECA) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) have historically offered investors negative returns over the past decade.

Worse, these stocks do not offer compensatory dividend yields to make up for the below-market average price performance.

Encana

Encana stock sells for $6 per share — up from $5 in August 2001. In the past 18 years, Shareholders in Encana have only made $1 per share, amounting to a low 1.1% return per year. After accounting for inflation, the return on Encana stock has been negative since its inception.

The corporation, sadly, doesn't have much of a future either. Electric vehicles and renewable energy solutions are quickly replacing oil as the leading source of energy.

With demand faltering for this resource, corporations like Encana are bound to fall off the stock exchange. In fact, up to 11 oil and natural gas corporations are struggling to qualify for public listing altogether on the TSX.

Canadian Natural Resources

Canadian Natural Resources may not be the best bet either, as it has also yielded negative inflation-adjusted returns. The stock has been extremely volatile over the years. In June 2008, the stock sold for more than $50 per share. Today, the stock sells for only $34.47. As a corporation heavily involved in oil and hydrocarbon exploration, this stock is also bound to have more substantial losses in the future.

Hydrocarbon is the primary component of petroleum and natural gas.

Luckily for Canadian shareholders in this nonrenewable natural resource firm, the stock issues a dividend yield of 4.35% to shareholders. This just barely compensates investors for the over 30% loss in share value over the past decade. Moreover, the stock is selling for a high price-to-earnings ratio of 16.28, making it a pricey option on the TSX.

Foolish takeaway

Oil stocks may not be the right way to go in today's economy fueled by rumours of an upcoming recession. Nevertheless, Canadians still have many fantastic savings options at their disposal. One of the best long-term investments aspiring retirees can make today is the purchase of bank stocks.

Bank stocks can pay up to 5% per year in dividends and have given shareholders above-average market price performance over the past 25 years.

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