2 Stable Dividend Stocks for a Volatile Market

Description

Volatility has become the new normal once again. As we head into another U.S. election year with talks of impeachment and no signs of a U.S.-China trade deal in sight, Canadian investors should get ready for even more volatility.

While recession fears are high, it's tough to be out of the market with the massive ups and downs caused by 180-degree shifts in market sentiment overnight.

Sure, it's risky to be in this market, but the more significant risk, I believe, is being out of the market given that big down days have been followed up with equally impressive and unpredictable rebound days.

This piece will focus on two low volatility stocks that can allow you to stay invested without churning your stomach as much as the broader indices. Without further ado, consider the following two compelling dividend plays to hold now and through 2020:

Emera

Emera (TSX:EMA) is a wonderful Canadian utility that tends to act as shocks for your portfolio when the market terrain gets rough.

With a low 0.25 beta and a chunky 4.2% dividend yield, Emera is precisely the type of investment you'd want to hold through an extremely choppy market where the risk of recession is elevated.

What enticed me most about Emera is the fact that it's transforming itself into more of a Steady Eddie like Fortis, an excellent business with highly regulated operating cash flows and above-average growth through its U.S. division.

Emera’s management team is moving toward regulated operations. As the company continues to expand its footprint into the U.S. market, higher returns and a greater degree of predictability are to be expected.

While the markets have stagnated, Emera has been roaring, with share now up over 50% from its 2018 December depths.

IA Financial

IA Financial (TSX:IAG), better known as Industrial Alliance, is arguably Canada’s most underrated insurance company, likely because it sports one of the lowest yields (currently at 3%) in the space.

Despite being one of the lowest yielding Canadian financial stocks out there, the stock still trades at a sizeable discount to its peers.

At the time of writing, IA trades at 9.2 times next year’s expected earnings, 0.5 times sales, and just 1.2 times book. While Canadian insurers deserve to trade at a sizeable discount given the demand for their services tends to retreat in harsher economic conditions, IA ought to be trading at a more premium multiple.

Unlike its peers in the life and health insurance space, IA has been known to have a more prudent and conservative player.

In prior pieces, I praised management for maintaining “a higher degree of financial flexibility” than its peers, noting that the stock was unjustly penalized for sporting a smaller dividend yield despite the company’s reputation for not “overextending itself with its dividend, investment approach or any other part of its business.”

Yes, insurance can be fickle in tough times. But given the low valuation and the “aura of conservative practices” you’re getting with IA, I see minimal downside as the sluggish Canadian economy attempts to stage a bounce back.

The stable 3% dividend yield is arguably safer than its peers and can be relied upon through tough times.

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Author
joefrenette