Worried About Growing Volatility? Here Are 3 Low-Beta Stocks

Description

There are a number of risks you take every time you buy a stock. There is business execution risk, where the business may not perform as well as you expected. There is natural disaster risk, where a company's assets may be wiped out by some type of natural disaster.

There is also political risk, where a government ruling could go against one of your business's operations, causing an impact to profitability.

Lastly, every stock is faced with market risk — the risk that arises from having its shares traded in highly liquid financial markets. When fear exists in the market, it can cause a number of stocks' share prices to decline, as investors rush to the safety of cash and other safe-haven assets.

It's impossible to eliminate risk, but the main objective is to minimize risk, and one of the best ways to minimize market risk is to buy low-beta stocks.

The beta is a measure of the stock's volatility against the broader market's volatility averaged out over a certain time period. So, if the market is down 2% on a certain day and the stock was only down 1%, its beta for that day would have been 0.5. This means any stock with a beta below one will be less volatile than the market.

It's important to note, though, that stocks that have negative betas will move in the opposite direction of the market.

It's no surprise that most of the low-beta companies you will find are mature companies that pay dividends and are in defensive industries. In good times, these are large established companies that will grow slowly and with stability, and in poor market conditions, they will be the last stocks investors want to sell.

In times of panic, the level of downside risk in the market is a direct result of how much fear exists, which drives an increase in demand for cash. Since these top companies will likely be the last stocks to be sold out of most investors' portfolios, their stocks tend to move less.

This becomes twofold, as investors then know that these stocks are not as volatile, which in turn makes them even less volatile.

Below are three examples of stocks you may want to consider adding to your portfolio to reduce its overall volatility.

Fortis is a utility company that has a beta of just 0.13. Looking at Fortis's performance in the last recession, it's clear it vastly outperformed the market. From 2007 to 2009, the TSX was down nearly 50%, while Fortis was only down roughly 30%.

Fortis also pays a dividend that currently yields roughly 3.5%, so it's an ideal stock to hold during periods of increased volatility.

Rogers Communications is a large-cap telecommunications company that's at the heart of the Canadian economy. These days, telecom is a vital industry in our economy, which gives Rogers a lot of stability. Its beta is currently 0.27, slightly more than Fortis but still significantly less than the broader market's.

Rogers pays a dividend that yields slightly more than 3%, so it's another great option to ride out the storm.

The last example is **Metro**: a consumer-staple stock that also has a beta of just 0.13. Consumer staples will always be some of the lowest-volatility stocks, and Metro is no exception. Its dividend yield is slightly lower than the other two at roughly 1.4%, but it's still an ideal stock for adding stability to your portfolio.

It's important to remember that the beta is a trailing indicator that measures the past volatility, and it could change in the future, but it still gives you a good idea of how a stock will perform, especially since we are already seeing heightened volatility in financial markets.

Rotating out of risky high-beta stocks and into stable defensive stocks is one of the best ways to insulate your portfolio and protect it from large capital losses.

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