As the World Shuts Down, It's Important to Remain Calm

Description

On an almost hourly basis, life as we know it is changing. The COVID-19 pandemic is having an unprecedented impact on our daily lives. In order to protect your portfolio, you should be buying defensive stocks.

Countries are closing borders and restricting movement. Some of the largest companies in the world are reducing hours or at worst, shutting stores completely.

It's therefore not surprising to see the stock markets swing wildly. Unfortunately, for those living in North America, this is just the beginning. There are no signs of a flattening curve, and until this happens, we can expect continued volatility.

History has shown that selling into uncertainty is not the right course of action. Investors should remain calm and use this as an opportunity to pick up high-quality companies. The fear is real but investors should not let their emotions influence their investment decisions. While I realize this isn't east, remember that a loss is only on paper until you sell.

In today's markets, investors are also getting a true sense of their risk tolerance. If investors are in full panic mode, the best course of action is to do nothing. Don't sell.

However, if you're sitting on cash, you should consider deploying that cash into high-quality, dividend-paying defensive stocks.

Consider adding a utility and a railway to your portfolio. In times of volatility, they are likely to hold up better than most, and as such will help limit the downside of your portfolio. Two companies that currently offer excellent value are **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Capital Power** (TSX:CPX).

A defensive stock with a significant moat

As Canada's largest railway, CN Rail is one of the best defensive stocks on the **TSX Index.** Rail is still the primary means of transporting goods across the country. Although the sale of non-essential goods may slow to a crawl, there are still plenty of essential products being distributed nationally.

Once the pandemic shows signs of easing, it is also one of the best positioned to benefit from a spike in consumer buying. Year to date, CN Rail has only lost 8.98% of its value.

In comparison, the **S&P/TSX Composite Index** has lost 19.62% over the same period. Outperformance in a bear market is the main reason why defensive stocks are critical to a well-balanced portfolio.

As of writing, CN Rail's dividend yield is 2.15%. Although this doesn't seem like much, it's far better than any fixed income rate. Similarly, it's only the second time in company history whereby the dividend yield has topped 2%, the last being the 2008 Financial Crisis. It's certainly a once-in-a-lifetime opportunity.

A cheap utility stock

Consumers still need power, and there's currently no risk to our distribution systems. Given this, utilities are some of the safest investments at the moment. Over the past week, several have been unfairly punished and have been swept up in panic selling.

The end result? Yields not witnessed in years. **Capital Power** (TSX:CPX) is one of these defensive stocks that looks very attractive at today's prices. Currently yielding 7.32%, a $10,000 investment would generate $732 in annual income.

The dividend is well covered, and as mentioned, there's no serious threat to profitability. As of end of 2019, the dividend accounted for only 35% of adjusted funds from operations. Through 2021, the company expects to raise the dividend by 7% annually.

As of writing, Capital Power is trading below book value (0.79) and at only 11.3 times forward earnings. Similarly, it is the only utility company with a PE to growth ratio below one (0.50).

A PEG below one is a sign that the company is undervalued, as the share price isn't keeping up with expected growth rates.

CATEGORY

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2. TSX:CNR (Canadian National Railway Company)
3. TSX:CPX (Capital Power Corporation)

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