Go on the Defensive With These 3 Stocks

Description

With stock markets now exhibiting signs of overheating, and the "melt-up" we've seen for the better part of a year now turning into a meltdown, investors may be looking for safe places to stash their funds until we find a bottom.

I believe that it is impossible to time financial markets. However, I've pointed out in the past my feeling that stocks have been overvalued in recent years. This is due, in part, to record-low bond yields and interest rates, which have spurred risk-taking, en masse, by financial markets.

Investing in defensive stocks is one way to avoid financial calamity, while retaining exposure to equity. Here are three of my top picks.

TD Bank

As far as Canadian banks go, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) remains my top pick for long-term investors seeking safety and income in today's market. TD's stock price has largely traded sideways of late, despite the massive sell-off we've seen in financial markets. Part of this is due to the lender's strong dividend yield, which remains in the 4% to 5% range.

I view TD as a great way for conservative long-term investors to wait out whatever storms may be on the horizon, while receiving a very nice dividend. Getting paid to wait for a stabilization, and continuing to buy on the way down, are two strategies that should work well for investors with a company like TD.

Lower interest rates and an inverted yield curve will not help the bank's profitability in the short term. I believe that most of this downside risk is already baked into TD's current stock price. This makes TD an excellent contrarian value play today.

Chorus Aviation

It is not possible to get more defensive than a near-monopoly/oligopoly. **Chorus Aviation** (TSX:CHR) is one of those companies that Warren Buffett would say has a massive “moat” or competitive advantage. A regional partner for **Air Canada** (TSX:AC), Chorus does most small inter-Canada flights and has a monopoly on many of its routes.

Chorus also has a vertically integrated business model. This allows for a level of profit maximization in the airline sector that is hard to replicate.

What I like about Chorus in this environment is the relative lack of exposure to the effects of the coronavirus, compared to larger Canadian airlines Air Canada and WestJet. Because it doesn’t manage any international flights, it is less affected by the steep drop in air travel.

Chorus stock has sold off alongside the broader TSX index, however, I believe it is well positioned to bounce back faster its peers, thanks to its market position and unique characteristics.

Alimentation Couche-Tarde

One of the consumer goods/retail players in Canada I like the most is **Alimentation Couche-Tard** (TSX:ATD.B). There are a few reasons for this. The company’s high-margin convenience store business combined with volume gas station business offers both top and bottom line growth potential. Couche-Tard’s growth has continued to compound over time due to excellent acquisitions. With this business still largely fragmented around the world, Couche-Tard has a unique opportunity to continue to consolidate the industry and become a global powerhouse in retail, while largely flying under the radar of most investors.

Stay Foolish, my friends.

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1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:CHR (Chorus Aviation Inc.)
3. TSX:TD (The Toronto-Dominion Bank)

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