



Market Rally: Time to Buy Defensive Stocks?

Description

The market has been on a major rally during the last few weeks. After stocks were selling off at a rapid pace in February and March, it seemed like there was no end in sight.

However, soon investors started to see the long-term value in stocks, and what's followed has been a significant market rally.

Defensive stocks were some of the first stocks to rally, as the markets were still crashing. This makes sense, given investors' fear of a recession ahead. However, soon after, top long-term stocks began to rally, even if they weren't defensive stocks at all.

Although investors have remained cautious with hospitality and consumer discretionary stocks in general, the market sentiment is starting to look a lot stronger.

If the market is about to go on a rally, should you buy defensive stocks today?

Why buy defensive stocks?

Investors buy defensive stocks for one reason. [Defensive stocks](#) help protect your money in a recession and, therefore, a market crash.

The companies are essential services that see only a small hit to business activity when the economy goes into recession.

By having stable operations, the stocks can pay reliable dividends, and the share prices perform better, because investors are aware of the stability.

So, when investors are buying defensive stocks, it's because they want to increase the stability of their portfolios. The trade-off is that if the economy booms and the market goes on a rally, those defensive stocks will likely underperform in the long run.

What does the market rally say about sentiment?

The market rally is a little peculiar for a couple of reasons. Although I'm a long-term value investor, and I recognize making quality, long-term investments when the price is right, there is so much uncertainty still in markets; it's hard to understand how it's gone on such a big rally.

Initially, as the market sold off, it seemed like any negative news sent stocks tumbling, but nowadays, there is much more optimism. This suggests that this market rally may be premature, especially since defensive stocks have continued to rally, even after the market followed.

Should you buy defensive stocks in this market rally?

At this point, I wouldn't be surprised if there were another market crash before the real long-term rally began.

There is still a tonne of uncertainty, and the world still needs a vaccine. So, if your portfolio is underweight defensive stocks, I would consider adding some for stability.

Furthermore, it's almost certain the economy will be in a recession when we emerge from this, so those defensive stocks could play a major role in your portfolio over the next few years.

At the same time, though, you still need to look for high-quality, long-term deals. A stock like **Great Canadian Gaming** (TSX:GC) is a perfect example today.

Great Canadian stock is so cheap; it's extremely attractive as a long-term investment. But just because we believe there is a strong chance of another correction doesn't mean we should pass on growth stocks like Great Canadian.

There is still the possibility that the market won't crash again soon. If we neglect high-quality [growth companies](#) and the market starts to rally, we could miss out on significant gains.

Over the past two years, Great Canadian has doubled its revenue after acquiring numerous casinos and racetracks for its portfolio. The company continues to see organic growth, as it renovates the casinos.

The renovations attract more foot traffic to its entertainment venues in addition to increasing the average sales per patron. This is a great long-term strategy, and one that gives Great Canadian plenty of room for growth.

With all its casinos shut down in the short term, though, the stock has been sold off heavily. Investors can get exposure to this top stock today; it's roughly 40% off where it was just a few months ago.

This discount makes it one of the most attractive stocks on the market and a prime candidate to skyrocket when it starts to rally.

Bottom line

No one can predict accurately how long the market rally will last. It's crucial investors have a balance of high-quality growth stocks as well as defensive stocks to provide stability.

CATEGORY

1. Coronavirus
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/26

Date Created

2020/04/29

Author

danieldacosta

default watermark

default watermark