Forget the Market Rally and Buy Healthcare Stocks

Description

The markets have been remarkably resilient to stress. March saw what was potentially the worst selloff in history on several levels. But the rally in April was equally historic. This month has seen a continuation of this cautious bullishness. But what's behind the current rally, and what should investors do right now? Let's explore a few themes.

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The market is rallying on news of several potential breakthroughs in a hunt for a vaccine against the coronavirus. Names like **Moderna** and **Powell** are generating a lot of hype. Re-openings are also getting investors stoked for a return to profitability in the companies they hold shares in. Is the rally reliable, though?

The next few weeks will provide some of the guidance that the markets are looking for. All eyes will be on the pandemic. Transmission rates will be key as businesses re-open, as will drug trial results. Consumer appetite will be another key metric. Investors should therefore keep an eye on data coming from healthcare officials and pay less attention to headline blur, flouncy tech names, and FOMO.

Defensive stocks are still on sale

Cash is still king, despite the ebullience of the markets. It's important for investors to keep liquidity high in a market that can turn on a dime. But a long-term, bullish, "hold-forever" investor should be looking to actually spend some of that cash on bargain stocks. Investors should carry on holding and look to add to a portfolio if the market crashes again. All that remains is deciding which areas to diversify into.

Healthcare stocks are likely to carry on rallying and remain a solid choice. Investors need to decide, though, whether to buy knocked-down stocks for wider long-term margins and meatier yields or chase upward momentum. One way to do both of these at the same time is to buy into areas of healthcare that are still reasonably valued and slower to react to headlines. Healthcare real estate is one area that satisfies these criteria.

One such investment might be **Northwest Healthcare Properties REIT**. This is a popular investment vehicle for healthcare and real estate investors alike. It also supports a passive-income strategy, paying a substantial dividend yield of 8.6%. It's a strongly diversified name in terms of geographical coverage, with revenue streams pouring in from Australasia, Brazil, Canada, and Germany.

Northwest trades at 30% below its year-long high, backing up that low-volatility thesis. Its P/B of 1.2 times book further denotes a nicely valued stock. In summary, Northwest is a well-priced pick with a rich yield in a highly defensive sector.

Of course, a market rally is never confined to just one sector. Investors tend to adopt a "buy-anything" stance when a bit of relief is injected into a depressed market. One way to play the market, then, is to go for a contrarian approach and use the rally to trim weaker names from a stock portfolio. Slow optimization for the pandemic market calls for a gentle massaging of a portfolio, avoiding big, sudden moves.

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1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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