Is it Finally Time to Sell Those Risky Stocks?

Description

Last Thursday saw a reminder that all market crashes are not behind us. Investors are caught between once-in-a-generation value opportunities and ratcheting economic risk. Investing in risk assets such as aerospace and cannabis stocks has become increasingly dangerous during the pandemic. However, while names like **Air Canada** and **Aphria** continue to generate buzz, others are fast becoming liabilities.

The gulf between risk and reward has never been wider

From selling off its CSeries jet program to getting out of the commercial aerospace business, **Bombardier** has had a rough run of things of late. Investors have had to decide whether to back a name mercilessly stripped down to the personal jet space. From selling off its rail segment to slashing 2,500 jobs mid-pandemic, Bombardier's woes have now been capped by deletion from the **S&P/TSX Composite Index.**

HEXO stock soared 26% last week after a key revenue beat, though CEO Sebastien St-Louis emphasized that more stores will be required in order to achieve its forecast for the year. Its third-quarter highlights were exemplified by a 30% net revenue hike and improved performance across its operations. However, HEXO could not escape removal from the S&P/TSX Composite Index, as it was hampered by a piecemeal cannabis retail environment.

Balancing risk in a stock portfolio

The retail space has been especially hard hit during the pandemic, for instance. Meanwhile, certain REIT types have also been under pressure, and insurance has taken a back seat to other types of financials. These, then, would be key areas to begin trimming from a portfolio.

However, not all names are equally weak in any given space. **Manulife Financial** is a beaten-up, wide-moat stock ripe for recovery, while **CAPREIT** just got added to the TSX 60. But these are exceptions to the rule, and many investors may be better off sticking with broad themes, as the markets struggle for guidance.

The corollary is that risky assets are in real danger of implosion. Investors taking the long view may want to sidestep risk-laden industries, such as the currently embattled aerospace and cannabis spaces. Better investments for long-term gains can be found in regulated utilities, the Big Five banks, and wide-moat plays like **BCE** and **CN Rail**. Consumer staples are also a strong play, with names like **Nutrien** (TSX:NTR)(NYSE:NTR) performing well.

It's a "safety-in-numbers" market when it comes to dividend investing. The real-world risk to businesses has never been greater. And with communities beginning to reopen, the threat of a potential second wave of infections could set the economy back even further. The trade-off between reopened businesses and swamped ICUs could exacerbate a rash of bankruptcies and delistings over the coming months.

Nutrien is a key name to watch here. This is arguably the ultimate consumer staples play, given the company's standing as the world's largest potash producer by market share. As a producer of major agri inputs, Nutrien satisfies a classic low-risk strategy founded on dividend stocks fed by revenues in essential industries. Packing a 5.1% dividend yield and trading at book price, Nutrien is a solidly low-risk income stock.

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