



COVID-19 2nd Wave: 1 Dividend Stock That'll Have Your Back in a Market Selloff

Description

The COVID-19 crisis is nothing short of unprecedented. Many investors were blindsided by one of the sharpest and most vicious +30% sell-offs in recent memory. While the U.S. stock markets have mostly recovered (with the **TSX Index** trailing a few percentage points behind), investors would be wise not to make the assumption that we're out of the woods just because of news on promising vaccine developments.

Until we have the advent of an effective COVID-19 vaccine, we're unlikely to return to any form of normalcy. Today, various geographies are suffering from a resurgence in COVID-19 infections. Parts of the U.S. (such as Florida) have been walloped, with cases are rising at an alarming rate. Meanwhile, the stock market continues to shrug off a majority of the concerns, with many tech stocks breaking above and beyond all-time highs.

Some pundits are of the belief that we've still yet to escape the "first wave" and that a potential "second wave" could be a doozy if it hits this fall. Moreover, pundits, including the likes of top doctor Anthony Fauci, believe that we may not have a widely available vaccine until "several months" into next year. If this realistic scenario ends up panning out, there's a chance that we could feel the full force of a second wave. Whether the stock market remains divorced from the reality of the situation remains to be seen, but in any case, investors [should be prepared for whatever Mr. Market ends up serving next](#).

Another market sell-off could be in the cards if a second wave causes another round of shutdowns. With the Fed standing in our corner, though, the markets could hold their own better than back in March, as the disconnect between the economy and the stock market looks to widen further.

These are [ridiculously unpredictable](#) times. And while I wouldn't advise drastic moves with your portfolio to prepare for a potential COVID-19 second wave, I would urge investors to consider battening down the hatches by beefing up the defensive portion of their portfolios if they haven't done so already.

Now, I wouldn't hide out in gold, with the commodity well above the US\$1,900 mark, the highest it's been in years. But I would look to "risk-off" companies with stable dividends that stand to be minimally impacted by a worsening of the crisis.

Preparing for a second wave

Consider shares of **KP Tissue** ([TSX:KPT](#)), a toilet paper stock that investors should look to hoard before the next wave of panic-buying hits. The panic-buying is just a mere "pull-forward" in sales over the near term that will follow a period of slower sales (people will take longer to go through their toilet paper hoards), and it's not a particularly good reason to be bullish on the stock.

I'm a fan of KP Tissue because of the resilience of its operating cash flow stream in these unprecedented times. Although the company doesn't have the best balance sheet in the world, it does have an operating cash flow stream that will hold up and do even better if a severe second wave to happen.

There's no telling how bad the second wave will be. But if it ends up being profoundly worse than the first wave (like the second wave of the Spanish Flu), you can find comfort in knowing that KP's dividend, which currently yields 6.1%, will be safe from a cut, as dividend reductions look to become normalized.

The stock is also pretty cheap at just 1.27 times book and is a terrific buy for those who've neglected the defensive part of their portfolios. While KP Tissue isn't going to make you rich, it will help you stay rich should another sell-off hit. Whether a second wave of COVID-19 cases causes the next pullback is anyone's guess, but it can't hurt to hope for the best while partially preparing for the worst.

Foolish takeaway

With KP Tissue, you'll get a good dividend at a good price and a slightly lower correlation to the broader markets (0.89 five-year beta). It's not an exciting bet, but it's one that can have your back if you're looking to play defence!

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. TSX:KPT (KP Tissue Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date

2025/08/23

Date Created

2020/07/27

Author

joefrenette

default watermark

default watermark