Retirees: How to Invest in Safe Canadian Stocks

Description

In a volatile market, investors are always on the lookout for stocks with a low beta and companies that are relatively "safe." This is even more true in the case of retirees who are no longer earning an income and cannot afford large fluctuations in their portfolio value.

However, there is no stock that is 100% risk-free, and even industry leaders can face an unprecedented fall in revenue and earnings if the macro-economic situation worsens. For example, **Air Canada** (TSX:AC), which has a 50% market share in the country's domestic airline space, returned over 3,500% to shareholders in the decade prior to COVID-19. Now, it is languishing at multi-year lows and trading 70% below its record high.

If you are looking for a safe investment, where there is little chance of losing your capital, investing in treasury bonds is your best bet. However, these bonds have a yield of less than 1%, which means they are unable to beat inflation and will decrease your overall purchasing power.

Despite the short-term volatility, the stock market remains attractive for long-term investors. You can still identify stocks that have robust fundamentals, huge economic moats, an enviable market presence, and, most importantly, recession-proof business models.

There is no such thing as a perfect stock, but retirees can build a portfolio of safe stocks based on the below metrics.

Steady revenue and earnings

You need to look for companies that are able to grow their revenue and earnings at a steady pace year after year. A company that is able to generate consistent revenue growth will be able to outpace peers and broader markets over the long term.

A non-cyclical business model

The most important criterium for a safe stock is that the company's business model should not be cyclical. The economy goes through peaks and troughs, and cyclical companies are those that perform well in expansions but underperform significantly in recessions.

Typically, airline companies such as Air Canada have a cyclical business model. Alternatively, utility and telecom companies are not cyclical, as people always need electricity, gas, water, and an internet connection.

Ability to sustain and grow dividends

Quality companies have the ability to sustain and grow dividends, and a good way to gauge a company's stability is to look at its dividend history. If a company has been able to grow its dividends irrespective the state of the economy, it can be deemed a solid investment.

For example, companies such as **Canadian Utilities** and **Fortis** have managed to increase dividend payouts for close to 50 years. A Dividend Aristocrat is a company that has increased dividends for at least 25 consecutive years. So, shortlisting these stocks would be a good starting point.

Competitive advantages

This is another important criterium required while identifying safe stocks. Companies can have a competitive advantage by having a strong brand recall, cost advantages, or even high entry barriers.

The Foolish takeaway

You can use this article as a starting point to invest in safe Canadian stocks. However, you still need to focus on diversifying your portfolio, as no stock is completely immune from competition and volatility.

Another important caveat to remember while investing in equities is they are wealth creators for people with a long-term horizon. Even the top companies are vulnerable to near-term price swings, as we have seen amid the pandemic and other economic recessions.

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