The 3 Best Stocks to Buy in December 2020

Description

The Bank of Canada expects a bumpy start to the economy in the year 2021. That's why it's keeping its benchmark interest rate at 0.25%. Simultaneously, it will also continue its quantitative easing program by buying $4 billion of bonds a week.

In an uncertain economy, these three types of stocks are your best bets for protecting your wealth while generating good returns.

Dividend stocks

Most investors feel at ease holding quality dividend stocks in their portfolios. It's a nice way to get consistent returns from dividend income, while holding the stocks for appreciation in the long run. Specifically, you should seek dividend stocks that are reasonably valued and pay safe dividends.

There aren't too many bargains in dividend stocks at the moment. Among the blue chips that are reasonably valued or modestly discounted are **Enbridge**, **Bank of Nova Scotia**, **TELUS**, and **Fortis**. This means they offer safety of your principal and decent income. At writing, they yield about 7.76%, 5.27%, 4.79%, and 3.84%, respectively.

Growth stocks

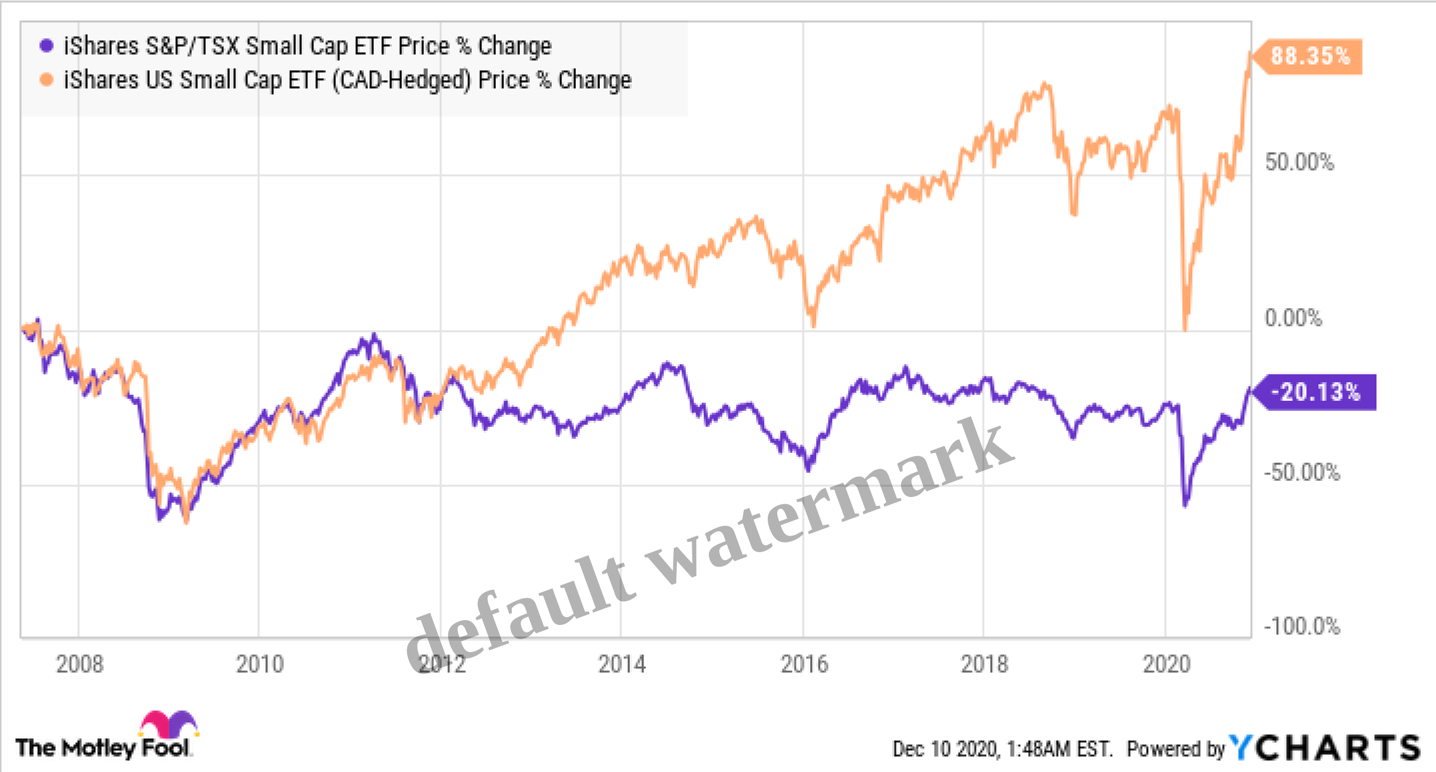
You want to explore growth stocks as well, as they can drive tremendous price appreciation. Take **Shopify** as a prime example. The stock has appreciated 172% in the last 12 months alone, driven by tremendous revenue growth that was actually helped by the pandemic as e-commerce took a bigger role in businesses. In the last 12 months, Shopify increased its revenue by 73% versus 47% and 59% in the past two years.

Some investors choose to invest in small/mid-caps for greater growth. For example, **S&P/TSX SmallCap Index ETF**, under the ticker XCS, provides diversified exposure to small-cap stocks across 10 industries. However, its two largest sectors — materials (26% of market value) and energy (14%) —

have higher uncertainty and take up 40% of the fund.

U.S. Small Cap Index ETF (CAD-Hedged), under the ticker XSU, will probably be a better long-term investment given that it's more diversified with the top five sectors being healthcare (20%), financials (15%), industrials (15%), IT (14%), and consumer discretionary (13%).

Indeed, XSU has outperformed XCS in the short and long run, as illustrated in the graph.



Data by YCharts. The long-term price action comparison of small-cap ETFs XSU and XCS.

Notably, small-cap ETFs like XSU will most likely fall harder in a market crash, as it did in the one we experienced earlier this year. However, buying at a low will also most certainly outperform the market incredibly, as shown below.

Data by YCharts. The price action comparison from a market crash low between small-cap ETF XSU, the U.S. market, and the Canadian market.

Gold stocks

Global quantitative easing can drive gold stocks like **Barrick Gold** and **Franco-Nevada** higher. The recent correction in the gold stocks could be a buying opportunity. Barrick Gold and Franco-Nevada stocks are down 25% and 21%, respectively, from their highs. And it'll take price appreciation of 33% and 26%, respectively, for them to get back to their highs.

The Foolish takeaway

The benefit of being a self-directed investor is that you have the flexibility of investing in what you think will do well and what you are comfortable with. Therefore, if you like, you could buy a mix of dividend, growth, or gold stocks for a more defensive and diversified portfolio going into the new year.

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Date
2025/07/28
Date Created
2020/12/10
Author
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