Buy This 1 TSX Stock if You're Worried About the Market

Description

Spreading the risk is a must when it comes to long-term investing. But how can TSX investors achieve this with an already diversified basket of Canadian stocks? A possible solution is to increase diversification within an individual sector. For instance, investors wishing to quickly and efficiently de-risk a banking segment of a portfolio may wish to ease off strongly represented markets and spread their international exposure.

Pick stocks for a frothy market

Scotiabank (TSX:BNS)(NYSE:BNS) offers a way to maximize global market exposure with a single stock. This name is perhaps best known for its exposure to the Pacific Alliance. Investors can play this angle by reducing shares in more narrowly focused Big Five banks and gradually swapping them out with Scotiabank. By building and trimming in set intervals, investors can also minimize the risk of emotional investing and without having to try timing the market.

Whatever alarmists have to say about bank stocks, Scotiabank has some attractive price targets at the moment. A dividend yield of 5.2% is also among the richest on offer in this sector. But with a payout ratio of 66%, shareholders can rest safe in the knowledge that Scotiabank's distribution is well covered. There's also room for dividend growth inherent in that attractively reasonable ratio.

A consensus estimate sees Scotiabank dishing out total returns by 2026 of around 20%. While this might not be a a hugely significant percentage, 20% isn't bad for a bank — and certainly not for a bank looking at a dire post-pandemic economic slump. Admittedly **TD Bank's** five-year returns are rosier at 38%. But lower growth plus broader geological spread could add up to lower long-term risk.

Indeed, from Brexit to the trade war pugilism of the Trump administration, a walk-back of globalization has been a major geopolitical force in the last four years. TSX investors may not have needed to be *au fait* with the ins and outs of this macroeconomic phenomenon to experience its effects. But the trend was there, weighing on the markets, and adding to anxiety. It was one of several broad-stroke trends that had analysts watching for an end to an epic bull run just before the pandemic erupted.

Massage a stock portfolio for an inflow of risk

But let's weave that weakening of the internationalist thesis with the current economic situation. One of the hardest-hit sectors in the last 12 months has been banking. The pandemic has weakened bankers' immune systems against further stress. For instance, consider the effect that curve-ball legal challenges — such as one major Big Five bank's current controversy — may have, should they be successful. (That particular case could have a $5.7 billion price tag.)

In summary, Scotiabank is a contrarian play on protectionist trade plus the chewed-up status of banks. It's a healthy pick, brimming with quality indicators. While growth may not be any bank's strong suit, the dividend on offer is reasonably well protected. Looking to the long term, Scotiabank shareholders could find their investment holding up well, even in the midst of an increasingly tumultuous market.

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