Investor Beware: A Top Low-Beta Stock for a High-Volatility Stock Market

Description

You’ve probably heard it more than a handful of times: the stock market is way overdue for a correction. Many pundits may tout the next big pullback as being vicious, unforgiving, and painful. But as a Foolish investor, you know that such near-term forecasts are to be taken with a grain of salt and a double dose of skepticism.

We’re in a weird market environment right now, with interest rates at the floor, and an unprecedented magnitude of stimulus cheques being printed. The safe and effective COVID-19 vaccines may end the pandemic in the near future. Still, nobody knows for sure when the insidious coronavirus will be conquered and how bumpy the road will be to post-COVID normalcy.

Investor beware: Now is not the time to be complacent

While investors have grown euphoric over reopening plays in recent months, with a willingness to pay a premium price tag for the names that promise the most upside in a sustained economic rebound, I’d urge investors not to chase momentum, even if we do have reasons to be optimistic about the vaccine timeline. Now, not to discount the incredible progress made with the handful of safe and effective vaccines, but it would only be prudent for investors to consider the risks that future COVID-19 variants may bring forth.

Pfizer, the first big pharma firm to pull the curtain on its vaccine breakthrough, recently noted that its vaccine should be effective against the two variants of concern (the South African and U.K. strains). While the news is great, one must not rule out the potential for future variants that could have enough of an impact on vaccine efficacy rates to prolong this pandemic past year’s end.

Don’t be complacent, but do be cautiously optimistic and have a plan to combat volatility if your stomach isn’t ready for choppy market moves that could continue to be “the new normal” through the year.

A one-stop-shop, low-volatility play for prudent investors

Consider shares of **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), one of my favourite low-beta ways to "smoothen" the stock market's ride higher.

The lower beta means that the ETF (and its constituents) are more likely to zig when the markets zag, and vice versa. In essence, the security should act as a pair of "shocks" on your portfolio for a rocky market environment.

What low beta does not mean, however, is that the ZLB is immune from substantial downside in the event of a vicious pullback. Should the next sell-off cause a cash crunch, the ZLB could easily plunge. That said, it should recover at a quick rate once the panic ends and Mr. Market has a chance to come to his senses.

The ZLB actually tanked back in the 2020 stock market crash, only to trail the broader indices in the ensuing market rebound due to the ETF's large allocation to companies that felt the impact of the COVID-19 crisis. Today, the ZLB is still in the doghouse, as utility stocks, insurers, and telecoms have been treading water in recent months.

Foolish takeaway

If you're looking to play defence in a frothy market and want to bet on a defensive comeback, the ZLB is a solid bet. The management expense ratio is a mere 0.39% and is a far better pick than your run-of-the-mill **TSX Index** fund for its greater sector-wide diversification.

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Date
2025/08/20
Date Created
2021/02/09
Author
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