Top 2 Market Crash-Proof Stocks

Description

When investors panic, they sell stocks indiscriminately. In other words, the baby gets thrown out with the bathwater during a market crash. Even the highest-quality stocks get beaten down when the system is in a crisis.

We saw this crisis first-hand last year. Between February and March 2020, the S&P/ TSX Composite Index lost 33.6% of its value. Several stocks in the index dropped much deeper. However, some stocks survived better during the market crash and could serve as shock-absorbers for your portfolio in the future.

Here are my top two picks for market crash-proof stocks.

Market crash buffer #1

Supplying electricity is the definition of essential. This is probably why **Fortis** (TSX:FTS)(NYSE:FTS) handled last year's crisis better than the rest of the stock market. During the 2020 market crash, the stock lost just 20% of its value. By April, the stock price had fully recovered to pre-crisis levels.

At the time of writing, Fortis looks like an underappreciated stock. It offers a lucrative 4% dividend and trades at a price-to-earnings ratio of 19. The price-to-book value is just 1.36.

Fortis pays out far less than it can afford in dividends. Over the past year, the payout ratio was just 74%. This means it has plenty of room to expand dividends. In fact, the company has a track record of annual dividend increases that stretch back 46 years! Annual increases in payout are nearly certain now.

Meanwhile, investors shouldn't worry about capital losses, even if the stock market crashes again in the near future. Households need to keep the lights on regardless of the pandemic and the state of the economy.

Market crash buffer #2

Groceries are just as essential as electricity. Which is why **Loblaw Companies** (TSX:L) performed so well during the last market crash. In fact, Loblaw outperformed Fortis over the two-month period when the stock market was hitting rock bottom. From February to March 2020, Loblaw stock was down a mere 6%. It had fully recovered by the first week of April.

The stock's performance during a historic crisis cements its position as a market crash-proof investment. Loblaw offers a 2.14% dividend yield and trades at a price-to-earnings ratio of 20. That means it's attractively undervalued and should be on every value investor's radar.

Loblaw also has hard assets as part of the portfolio that make it even more robust. The company owns 7% of the real estate where its retail stores are located. It also owns 4% of the real estate where its franchisees operate. These properties buffer the balance sheet further and make Loblaw one of the safest stocks in Canada.

Bottom line

Another stock market crash could be just around the corner. When panic sets in, even high-quality, blue-chip stocks get punished. However, some essential service providers such as Fortis and Loblaw could weather the next storm. These stocks should be your flight-to-safety alternatives.

CATEGORY

1. Investing

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1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)
3. TSX:L (Loblaw Companies Limited)

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