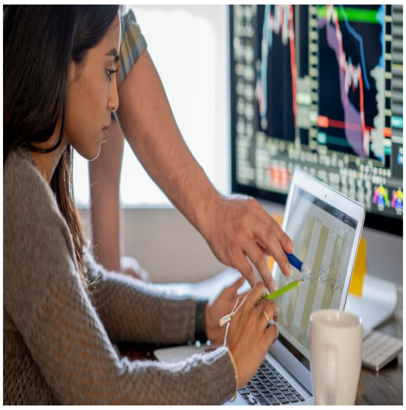

Turning 40? 2 TSX Stocks to Balance Your Risk-Reward

Description

Are you nearing your 40s? After gaining wisdom from working for over a decade or two, you are now thinking of stock market investing as a passive source of income. You already have a set Tax-Free Savings Account (TFSA) portfolio of fixed income securities, and now want to explore equity. Are you getting cold feetyou should buy into these growth stocks? What if you buy the stock at its peak and it crashes never to return to its peak point?

All these questions and apprehension is pretty normal, especially after all these years of fixed interest. But you can build a well-balanced portfolio while minimizing your risk.

Balancing the risk-reward ratio of your stock portfolio

Never look at your investment in just one stock. It won't give you the right picture. Always look at the overall performance of your portfolio. You may lose money in some shares and gain in some. Take it as a learning and move on.

A stock that looked like a mistake in one year could become your star performer in the other year. This doesn't happen only with you, but also with Warren Buffett. The 90-year young billionaire has admitted his investing mistakes many times. At one time, he was bearish on gold stocks; now you see him putting millions in it.

But Buffett balances his risk-reward ratio. He hedges his risk of investing in high-growth stocks by investing a significant portion of his portfolio in energy and bank stocks that pay dividends. Adopt a similar strategy this May with two Canadian stocks.

Constellation Software stock

Constellation Software (TSX:CSU) stock is so expensive that many young investors avoid it. Trading above $1,800, this is a stock that is unlikely to disappoint you if you show patience. I agree that past performance does not guarantee future returns, but it does show the management's ability to handle a crisis while protecting shareholders' interests. Constellation's management aces in this area.

The stock has been in a long-term uptrend since 2011, growing 3,500%. However, there were two brief periods of downturn in 2018 (the U.S.-China trade war) and 2020 (the pandemic crash). Over the last decade, the stock surged as the company successfully acquired several mission-critical software companies with steady cash flow. It facilitated these companies with finance, management, and networking expertise to accelerate their growth.

But now, Constellation's growth rate has slowed as its size increased. Moreover, it faces the risk of any acquisition not working out as expected or the industry facing a downturn. But its diversified portfolio of over 125,000 clients across 260+ verticals worldwide mitigates the risk and brings steady cash flow. The stock still has the potential to grow double-digit every year.

Enbridge stock

If Constellation still looks like a risky bet, you can mitigate that risk by pairing it with **Enbridge** (TSX:ENB)(NYSE:ENB). Enbridge is a dividend stock that gives far better returns than bonds. With interest rates near zero, fixed income securities have lost the ability to hedge your money against inflation. At such times, a stock with a 7% dividend yield is an attractive option. Moreover, Enbridge has a 26-year history of increasing its dividends at a compounded annual growth rate (CAGR) of 10%.

A $2,000 investment will fetch you $140 in annual dividend. But the high yield comes with a risk of your principal falling. In the March 2020 crash, Enbridge stock fell 35%, but it did recover more than 80% in one year. This is because of the fluctuation in oil demand. While Enbridge is not directly impacted by oil prices, it takes a hit on a significant dip in oil demand.

Never the less, the rising dividend income will partially offset the dips from the stock price fluctuation. In the worst-case scenario, Enbridge won't increase the dividend.

Foolish takeaway

While investing in equity is exposed to the market risk, it is also rewarding. If you can balance your risk and reward, then stocks can be a good source of income.

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