



How to Stay Diversified as COVID-19 Delta Risks Rise

Description

The stock market may be getting a tad on the [expensive](#) side, but that doesn't mean you should wait around with a pile of cash for the next market correction.

Although the broader Canadian and U.S. indices are near all-time highs, many top growth stocks are already fresh off vicious corrections. And it's these such names that appear to be in [a better spot](#) to dodge and weave through any second-half punches and jabs that Mr. Market will surely throw your way, possibly due to continued outbreaks caused by the COVID-19 Delta variant.

In prior pieces, I've commented on how the current market environment, one that's been hit with "rolling corrections or pullbacks," is one that's tilted ever so slightly in favour of stock pickers. Given the split between various classes of stocks (most notably reopening plays versus pandemic-resilient plays), it shouldn't be a mystery to see many stocks that are still off considerably from their 52-week highs.

Depending on your exposure, your portfolio may be down 5-10% year to date, even with the market 1% away from new highs. Indeed, it can be tempting to just ditch stock picking for passive investments. Given the sector-wide deviation in performance, however, sub-optimal performance may be a symptom of improper diversification rather than a sign that passive investing is poised to trump active investing.

For those with diversified portfolios and an ability to pick their spots carefully (and in a contrarian fashion), one can actually do far better than the market averages. Indeed, volatility and unpredictability, while perceived as negative, can work in the favour of disciplined stock pickers in this unpredictable pandemic-plagued environment.

Are you properly diversified or hedged against the COVID-19 Delta variant going into August 2021?

Diversification is more than just about how many stocks are in your portfolio.

Undoubtedly, by focusing on some arbitrary number, one can think they're properly diversified when they're not. By owning too many stocks, one runs the risk of a phenomenon known as "di-worsification," a term once coined by legendary investor Peter Lynch. Too many stocks and you just won't be able to keep up with the homework required to do well as an active investor.

Indeed, the COVID-19 crisis showed the importance of sector-wide diversification, paving the way for the "barbell" portfolio that seeks to balance stocks across sectors based on how they'll fare in response to the pandemic's impact. For instance, if you're going to place a bet on **Air Canada**, one of the most aggressive reopening stocks, you may wish to balance the COVID-19 risks with a company like **Loblaws**, which demonstrated its resilience through lockdowns.

Sticking with the barbell approach may prove smart amid the Delta-driven COVID-19 outbreak

With such a balanced barbell portfolio, you'll stand to do well, regardless of what segment of the market the "rolling correction" moves through next. Although we are getting closer to the end of the pandemic, the Delta variant is likely to bring forth future waves. As such, one should look to stay diversified, rather than going overweight on the riskiest of reopening plays.

For beginners, it can be a confusing time to diversify one's COVID-19 risks, as many firms within the same sector may be in the middle ground (negatively affected by the pandemic, but not much more than your average company). Take **Restaurant Brands International** and **Pizza Pizza Royalty**, two restaurant plays that have endured different results over this past year.

The former has sagged for most of the year, while the latter has blasted off above pre-pandemic 2020 highs. The main difference? Delivery capabilities.

Bottom line

Moving forward, one must conduct a careful analysis to gauge the full extent of COVID-19 risks and not just stop at industry or sector when diversifying to achieve a fully-balanced barbell portfolio. Very specific traits could mean the difference between outperforming and plunging come another round of COVID-19 lockdowns.

I have no idea if more lockdowns loom. But you should be prepared for anything.

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