Inflation Rising: A Low-Volatility Dividend Stock’s Strategy to Play in Core Portfolios for 2022

Description

Canadian firms and key industry players see higher inflation rates above 3% persisting for longer. A strong consumer demand outlook in the face of labour shortages and persistent supply chain bottlenecks reinforces higher inflation expectations, and investors need to protect their retirement portfolios’ earning and purchasing power, even as market volatility remains high. Low-volatility dividend-growth stocks could be great investments for 2022 and beyond

Why volatility is a top concern for your core retirement portfolio

Volatility may be a good friend when trading stocks and currencies, but not so much when it comes to preserving wealth in a core retirement portfolio. Core holdings constitute that central part of your long-term investment portfolio. It’s essential that core assets have a history of reliable returns and consistent cash flow-generating power.

High volatility in the main retirement account may rob you of a good night’s sleep — more so as the retirement day draws nearer. Added to the prospect of rising inflation, suddenly, the need to protect your core portfolio’s purchasing power throughout the next few years has never been greater.

But stocks are inherently volatile … watch beta!

By nature, stock prices are inherently volatile, but some tickers are more volatile than others. You would ideally want to hold stocks that are less volatile than the overall market in a core portfolio.

A stock's volatility versus the overall market is measured by its beta. A beta of one indicates an investment that's as volatile as the overall market (the TSX). A beta above one indicates higher than market volatility. Beta is a measure of risk, and Canadian stocks with a beta of less than one could be said to carry lower-than-average capital investment risk. I would prefer to use a three-year beta over its one-year counterpart to reduce a recency bias.

Add a regular, dependable, and growing dividend payout

As a bonus, investors would love it if their selected low-beta stocks paid regular and dependable dividends. Dividends will improve portfolio liquidity and provide income to reduce the need for asset disposals on rainy days.

Dividend-growth rates that are higher than inflation expectations are desirable.

Even better, given inflation jitters, and expectations for inflation to remain higher than 3% over the next year, buying low-volatility dividend stocks that usually grow dividends at higher rates than expected inflation could help protect the portfolio's buying power.

Let's have a look at one low-volatility dividend-growth stock that should belong to a core investment portfolio today.

CT REIT

The landlord to **Canadian Tire**, **CT Real Estate Investment Trust** (TSX:CRT.UN) is one of the best real estate plays retail investors could make on the TSX today — both for stable income and capital appreciation.

With a high 99.2% occupancy ratio, its real estate portfolio should provide long-term inflation protection, and its investment-grade-rated major tenant doesn't seem like it will default on rental payments anytime soon.

CT REIT pays a regular monthly dividend that yields 4.8% today. On average, the trust has increased its distribution by 4.9% annually over the past three years. The year 2021 marks the seventh year of consecutive distribution increases. Historically, the income yield has grown at higher rates than inflation.

Most noteworthy, CT REIT's three-year beta of 0.64 indicates an asset that has not been as volatile as the Canadian stock market. Its one-year beta of 0.33 even looks better.

A dividend coverage ratio of 178.3% makes CT REIT retain its position among one of the safest real estate dividend growers on the TSX today.

Investor takeaway

Past performance is not a predictor of future returns, but I would be happy to buy stocks that have historically proven their capacity to remain relatively more stable than the TSX, paid decent dividends or distributions, and shown capacity to grow dividends at above inflation rates. CT REIT is one such eligible addition to a core investment portfolio today.

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