Tech Stock Selloff: Here's What's Safe Today

Description

Tech stocks have been selling off at a blistering pace. For the year, the NASDAQ Composite has fallen 11.5%.

As of this writing (before market open on Tuesday), futures were pointing to another negative open for the world's biggest tech index. If big tech takes another dip today, then it may set new lows for the year. Since January 27, tech stocks have modestly recovered from their lowest level, but continued bearishness this week could reverse the trend.

Indeed, there is reason to believe that this trend will continue. Last week, **Meta Platforms** fell 30% after a slightly disappointing earnings release, which beat on revenue but missed very slightly on EPS. It seems that investors are not willing to take chances with even the slightest underperformance from big tech. If current conditions persist, then even the slightest miss from one of the big players could lead to another tech crash.

Fortunately, there are safer places to invest your money. While they don't offer the outsized returns big tech stocks do under ideal market conditions, they do stand a fighting chance of thriving in today's difficult market conditions. In this article, I will reveal one asset class that looks primed to thrive in today's market.

Bank stocks

Bank stocks are one group of stocks that appear ready to run in 2022. They're cheap, they have high dividend yields, and they aren't negatively impacted by high interest rates. Bank stocks generally tend to rise when interest rates go up, because they are thought to make more money on loans when rates rise. The actual profit margin-enhancing effect of high interest rates on banks can be overstated. But investors, nevertheless, tend to buy up bank stocks when interest rates go up, anticipating higher profit margins.

So, we're in a good period for banks. The Federal Reserve is about to raise interest rates several times. The Bank of Canada is thought to be contemplating the same move, although it backed out in

January. Broadly, it appears that higher interest rates are coming to North America. And banking is one of the few industries that actually benefits from that trend.

An ultra-diversified banking ETF to consider

If you're looking to get into bank stocks in 2022 but aren't sure what to buy, you could consider an ETF like **BMO S&P/TSX Equal Weight Banks ETF** (TSX:ZEB). It's a Canadian banking ETF that holds all the big Canadian bank stocks. In many ways, it's similar to other Canadian bank funds. However, it enjoys one key difference: equal weighting.

Equal weighting is when all stocks in a portfolio are held in the same proportion. This reduces concentration risk. If a stock becomes an outsized percentage of a portfolio, then any weakness in that one stock will disproportionately affect the whole portfolio. ZEB doesn't have this problem. So, it removes some of the risk you are exposed to in the average banking ETF.

Foolish takeaway

It's a tough time for the markets, there's no doubt about that. Between inflation, rising interest rates, and tech weakness, there's a lot to groan about. But there's always something out there in the world that's worth investing in. In 2022, Canadian bank stocks may just be that thing.

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