Make Your Portfolio Correction Resistant With 3 Canadian Stocks

Description

The current market is the best time to start your equity investing journey. Instead of buying in a bull market, buy in a bear market. But to know the best stocks to buy now, you need to know the current market and how the upcoming policy changes and political events will impact the business environment.

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What's happening in the stock market?

At present, three pressing issues are driving the stock market:

- The Justin Trudeau government levied a special tax on banks and insurers for the 2021 tax year and increased their corporate tax by 1.5%. Economists believe the impact will be limited.
- The Bank of Canada increased the interest rate by 50 basis points. The fear of accelerated interest rate hike created panic among hedge funds, and they booked profits early in tech stocks. This has pulled tech stocks to the pre-pandemic level.
- Sanctions on Russia have disrupted the supply of oil and commodities, driving their prices. They are likely to remain high until a sustainable alternative is in place. This could take a year or two.

Hence, oil stocks are soaring while tech stocks are falling. This is the exact opposite of the 2020 pandemic crisis when tech stocks inflated, and energy stocks crashed. This market scenario highlights the importance of portfolio diversification.

Make your portfolio correction resistant

If you purchased tech stocks at their peak and failed to diversify, your portfolio is in deep red. It is never too late to learn from our mistakes. Even Warren Buffett has made mistakes. He has had his share of losses on some investments, but his overall portfolio performed well in the long term. The trick is to build a portfolio resistant to a market correction by allocating funds in uncorrelated assets. Let's break it down.

Commodity stocks

You just saw the energy and tech stocks reacted differently to the pandemic. This is because commodities are cyclical. These companies do not have control over the price. The market forces of demand and supply determine the price. And the significant interdependence of countries for commodities exposes them to geopolitical risks.

This is not a good time to buy energy stocks, as they are trading at their 52-week high. But these prices cannot stay high forever. The United States and Europe are working to reduce dependence on Russian oil and gas. Once they have a sustainable alternative in place, energy stocks could correct. If you already own **Suncor Energy** or **Cenovus Energy**, keep holding them, as they could give you significant dividend growth. They doubled their dividends in December 2021 and could report another 20-50% growth this year.

REITs

There are other alternative assets like gold, bonds, and real estate. REITs are a good hedge against inflation as property prices rise every year, and so does rent. REITs transfer the capital gains on the sale of property and rent to investors in the form of monthly distributions.

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SmartCentres REIT (TSX:SRU.UN) is Canada's largest retail REIT and earns 25% of its rental revenue from **Walmart** and another significant portion from Walmart-anchored stores. It has continued to pay a monthly distribution for over 12 years. You can lock in a 5.7% annual distribution yield that could mitigate your portfolio downside.

International ETFs

A geographic diversification could further strengthen your portfolio from country-specific risk. **BMO MSCI EAFE Index ETF** (TSX:ZEA) invests in developed equity markets other than Canada and the United States. It has invested in 831 stocks and ETFs, of which over 55% are in Japan, the United Kingdom, France, and Switzerland. Its largest holding is in **Nestle** at 2.12%. The Russia-Ukraine war has pulled down the ETF by 11% from its December 2021 peak, and it would remain volatile in the near term. But this dip could see an equally strong recovery rally when the war is over.

Final takeaway

When you build your portfolio, keep a core fund where you invest in stocks and bonds as per your risk appetite. Then keep a secondary fund where you invest in these alternative investments that protect your portfolio from a correction. Keep some cash for emergencies or opportunities.

Happy investing!

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