



Build a Diversified Portfolio With 2 Mining Stocks

Description

Rising inflation and the tech stock selloff have severely impacted the portfolios of many young investors that invested in [growth stocks](#). And those that invested in bank stocks to benefit from rising interest rates also took a hit in the short term, as the Justin Trudeau government levied a special [tax on banks](#). All this shows how the market dynamics impact your portfolio.

How to play the market dynamics

Sometimes a stock dips, and you still hold on to it if it has long-term growth potential. But your portfolio should be able to help you in difficult times. You should be able to withdraw some of your investments when you need them without selling your stocks at a loss.

This calls for a well-diversified portfolio and asset allocation. Let's take the current scenario. Let's say you purchased **Lightspeed Commerce** and **Scotiabank** in April 2021 and considered the growth and a dividend stock to be sufficient diversification. But Lightspeed lost [66% value](#), and Scotiabank's 8% rally was not sufficient to mitigate the former's loss.

While the diversification was right, it was not enough to help you keep your portfolio balanced. Both the companies depend on economic growth and investor sentiment for better returns. In a recession, both Lightspeed and Scotiabank would take a hit, and you would be stuck with a red portfolio from which you cannot withdraw without booking a loss.

Building a well-diversified portfolio

This is where asset classes come into the picture. In growth stocks, it is important to book timely profits when you see a stock hitting a bubble. When you sell growth stocks, park profits in a bond or a resilient stock like **Loblaws**. Look for an asset class that is not affected by investor sentiment but by market demand and supply, like commodities. Also, look for safe-haven investments like gold or real estate that tend to perform well in a weak economy.

Two mining stocks to diversify your portfolio

Teck Resources ([TSX:TECK.B](#))([NYSE:TECK](#)) is a Canadian mining company focused on copper, zinc, and steel-making coal. It has operations in Canada, the U.S., Chile, and Peru. Mining companies' profits are cyclical, as market demand and supply determine commodity prices. Teck increases mining activities when there is sufficient demand for its minerals.

Several metal stocks surged in 2021, as commodity prices surged. Hence Teck's EBITDA rose from - \$99 million in the fourth quarter of 2020 to \$2.66 billion in the fourth quarter of 2021. Around \$2 billion of this EBITDA came from the increase in commodity prices. This drove Teck's stock price up 57% in 2021. It was unaffected by the interest rate hike or rising inflation that pulled down tech stocks.

However, this is the fourth-quarter data. The Russia-Ukraine war has sent commodity prices to new highs, which could mean windfall gains for Teck in the first quarter. The stock surged as much as 51% in the first 100 days alone. But it has dipped 18% in the last two weeks, creating an opportunity to buy the stock in the dip. The company could announce higher dividends and buybacks, as it shares its windfall gains with shareholders.

If you owed Teck stock, its 50% jump could help you offset Lightspeed's 18% dip in the first 100 days, bringing balance to your portfolio.

While Teck is giving profits and dividends now, **Lithium Americas** ([TSX:LAC](#))([NYSE:LAC](#)) is an investment for the future. The company expects to get the first production of battery-grade lithium carbonate equivalent in mid-2022. Lithium is a key material in rechargeable batteries for electric vehicles (EVs) and cell phones. China is the biggest producer and consumer of lithium.

The Russia-Ukraine war has ignited the need to reduce dependence on one country for important metals and minerals. The United States is promoting domestic production. This is where Lithium Americas comes in. The Thacker Pass Project is believed to have the largest lithium resource in the United States, and LAC is mining it. As EVs replace fossil fuel cars, lithium demand would surge, bringing strong cash flows for LAC.

Bottom line

The above two stocks can protect your portfolio from significant downside and enhance your upside.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:LAC (Lithium Americas Corp.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:LAC (Lithium Americas Corp.)
4. TSX:TECK.B (Teck Resources Limited)

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