How to Build a Stock Portfolio That Could Protect Your Wealth During Volatility

Description

The stock market is volatile in the short term because of investor sentiments. Many beginners quit stocks altogether when their equity portfolio is in red. This happens because you invested in a particular type of stock, growth or dividend. Having stocks of 10-20 companies in a similar industry doesn't constitute a well-diversified stock portfolio. It would help if you had a portfolio that keeps you wealthy, even in volatility in the long term.

Five elements of a wealthy stock portfolio

Not all investments you make are to grow your money. Some investments protect your portfolio in a downturn, and some give it stability. Ensure your portfolio has the below five elements to keep you wealthy despite volatility:

- Your core portfolio is invested in large-cap stocks and ETFs.
- Your portfolio is diversified across different industries.
- You have a significant amount invested in dividend stocks.
- You have exposure to different asset classes like REITs, bonds, and precious metals.
- Less than 5% of your portfolio is invested in speculative bets like crypto or meme stocks.

The dividend investing strategy

No matter what strategy you use, make sure the above five elements are in your portfolio. For instance, John is nearing retirement and building a passive-income portfolio. He needs higher exposure (more than 50%) to dividend-paying stocks.

Industries like telecom, energy, banking, and REITs have some strong dividend payers. Within similar sectors as well, different stocks have different dividend yields. For instance, **Slate Office REIT** (TSX:SOT.UN) is a small-cap REIT with an 8.9% distribution yield, whereas **SmartCentres REIT** (TSX:SRU.UN) is a mid-cap REIT with a 6.68% distribution yield. Where would you invest your money? Many investors might opt for Slate Office because of the higher distribution yield. But the high yield is compensation for taking higher risk.

Slate Office almost halved its distribution in 2019 to free up cash to reduce its debt and sell some of its income-generating properties. In 2018, the REIT had a dividend-payout ratio of 98.7%, which leaves little room to make financial decisions. It is not that SmartCentres doesn't have risk, but the level of risk is lower than that of Slate Office.

SmartCentres has a 30% distribution-payout ratio that gives it the financial flexibility to maintain dividends, even when its rental income goes down. Moreover, 25% of its rental income comes from **Walmart**. Hence, the REIT hasn't made any distribution cuts.

Even if SmartCentres offers a lower distribution, buy the RET to reduce the risk from Slate Office. Similarly, diversify your dividend stocks across industries. **Enbridge** and **Scotiabank** are good dividend stocks for your income-generating portfolio.

Investing in stocks that move in the opposite direction

While dividend stocks will give you regular income, invest a portion in stocks that move in opposite directions. For instance, if you have invested in oil, also invest in renewable energy. Many governments have reduced their investment in oil and gas development and are focused on renewable energy. If you own oil and renewable energy stocks, one's profit will negate the other's loss and keep your portfolio green in the long term. One more combination is bank stocks and gold stocks.

I would suggest buying stock of oil company **Suncor Energy**, wind energy giant **Northland Power**, and pipeline giant Enbridge.

The growth stock portfolio

A stock portfolio without growth stocks would limit its potential to outperform the market. If you are risk averse, you can have a lower exposure (say 20%) to growth stocks. The tech sector dominates growth stocks. But even within tech, there are large- and small-cap stocks and resilient and high-risk stocks. For instance, **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX) stock is in a long-term growth trend.

Descartes offers supply chain management solutions to a diversified client base. Its solutions are sticky and are getting stickier, as trade becomes complex. If you look at the short-term growth, the stock is down 13.5% year to date. But if you look at the long-term performance, the stock surged 175% in the last five years.

Final takeaway

Investing is about time in the market. A well-diversified stock portfolio will keep you wealthy in the long term.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)
3. TSX:RPR.UN (Ravelin Properties REIT)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Investing
2. Stocks for Beginners

Date
2025/06/28
Date Created
2022/07/18
Author
pujatayal