2 Defensive ETFs to Weather a Bear Market

Description

Not everybody has the risk tolerance or time horizon to go 100% stocks in their portfolio, and that's completely fine. Many investors who began buying growth and tech stocks during the COVID-19 pandemic are now facing deep unrealized losses in light of the 2022 bear market.

For older investors or those who want to take less risk, lowering portfolio volatility (how much your investment value fluctuates up or down) and drawdowns (how much value you lose during a market crash) is of great importance. Sometimes, the best path to a wealthy retirement is minimizing losses.

A great way create a safer long-term investment portfolio is via the use of exchange-traded funds, or ETFs. Today, I'll be going over two ETFs that are well designed to weather a bear market and deliver more steady, consistent returns.

Low-volatility stocks

BMO Low Volatility Canadian Equity ETF (TSX:ZLB) holds a portfolio of 47 low-volatility, large-cap Canadian stocks. When we talk about "low volatility," we mean that these stocks have a lower beta, which is a measure of sensitivity relative to the stock market, which always has a beta of one.

A stock with a beta of greater than one moves in the same direction as the market — e.g., a beta of 1.5 would be 1.5 times more volatile and two would be two times more volatile, etc. A beta of zero implies the stock moves independently. Finally, a negative beta under zero means the stock moves inversely.

Currently, ZLB has a beta of 0.47, making it half as volatile as the overall market. This is great for investors who want to limit the fluctuations of their portfolio in response to market events. ZLB costs an expense ratio of 0.35% to hold, which works out to around $35 in annual fees for a $10,000 investment.

Money market funds

Money market funds hold cash-like assets, such as deposits in guaranteed investment certificates (GICs), high-interest savings accounts (HISAs), or short-term U.S. Treasury Bills (T-Bills). These instruments are considered “risk free” and aren’t affected by stock or bond market crashes.

Money market funds offer a way to hold cash while still earning a small amount of annual interest. A great ETF to use here is **Horizons Cash Maximizer ETF** (TSX:HSAV), which currently has a gross annual yield of 2.99% thanks to rising interest rate. Best of all, it costs an expense ratio of just 0.08% right now.

Unlike most money market ETFs, HSAV doesn’t pay distributions. The fund automatically re-invests them, and it shows up in its continually increasing share price over time. This makes HSAV a great choice for taxable accounts, as you no longer have to worry about paying tax on distributions.

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