2 Stocks to Reduce Your Risk in an Unstable Market

Description

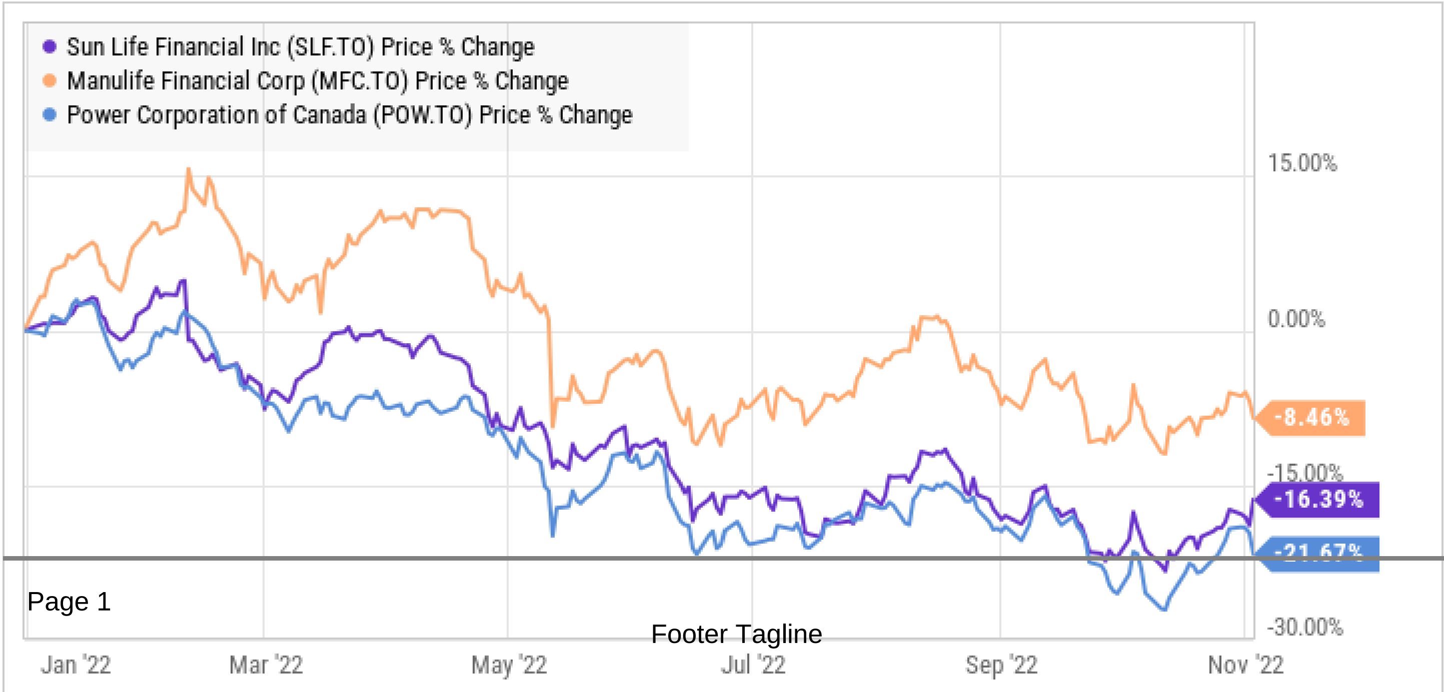
Investors know to diversify their capital to reduce risk in their portfolio. Ideally, you would want to populate your portfolio across stocks that have negative correlation to each other. That said, in a market downturn, it's difficult to find stocks that aren't falling. One way you can reduce your risk is by getting your money back bit by bit from dividends.

For instance, if you invest $1,000 in a dividend stock that pays a constant dividend yielding 5%, you can get your money back in 20 years. Thankfully, many [dividend stocks] actually increase their dividends so that you can get your money back sooner without worrying where stock prices may be at.

Another layer of safety you can add to your portfolio is by aiming to buy stocks at a discount to their intrinsic values.

An undervalued dividend stock yielding 6%

One dividend stock that has been holding up quite well lately is **Manulife** (TSX:MFC). Perhaps it's because before the market downturn, it was already trading at a low valuation. So, it had less downside than its peers.



MFC, POW, and SLF data by YCharts

The above chart shows the year-to-date price action of Manulife and its peers. If you account for dividends received as well, an investment in the stock year to date would be only 2.9% lower.

If you have a long-term investment horizon (as you should with stock investing), you can view dividends received as getting a positive return, even when stock prices are down. This perspective can allow investors to more easily hold stocks in today's high volatility.

Manulife will be reporting its third-quarter (Q3) earnings results next Monday. Its results in the first half of the year have been solid. Net income attributed to shareholders was up 18% to over $4 billion and diluted earnings-per-share (EPS) growth was 19% to $2.04. Its return on equity in this period was also respectable at 15.7%.

What may be depressing the stock is that Manulife reported core earnings that declined 6% to $3.1 billion. This may be a measure that's more suggestive of the business performance. However, core earnings is a non-GAAP financial measure that the company displays.

In any case, Manulife stock's dividend remains sustainable with a payout ratio of about 43% of earnings.

A stock that has less correlation with the market

Gold stocks have been hammered lately, as miners' operating costs have risen with high inflation, but they're unable to pass on the cost, because they can't control gold prices. For example, **Barrick Gold** stock is down 25% year to date.

What's worse is that gold prices have been pressured from a strong U.S. dollar. Theoretically, inflation is supposed to make fiat currencies worth less and, therefore, gold worth "more" in fiat currencies (say, U.S. dollars). However, this hasn't translated into higher gold prices at the moment.

For lower-risk exposure to precious metals, investors could consider precious metals streamer **Wheaton Precious Metals** (TSX:WPM). It doesn't operate any mines. Instead, it agrees to pay upfront costs to a list of miners to get streams of gold or silver at low costs. Unfortunately, it doesn't change the fact that depressed precious metal prices continue to weigh on Wheaton Precious Metals's profits.

Thankfully, the company can also grow by signing more streams. Right now, it collects streams from 21 operating mines and has 13 projects under development.

Wheaton Precious Metals also pays a quarterly dividend that's based on 30% of the average cash generated by operating activities in the previous four quarters. Currently, it yields almost 2%.

Analysts have a 12-month price target of US$50.70, which represents 60% upside potential. Of course, this won't play out until the high inflation is reflected in gold prices. Investors must exercise patience.

The Foolish investor takeaway

Make sure your portfolio diversification is adequate. Invest in a diversified set of stocks that are undervalued in this market downturn, including dividend stocks that pay nice and growing dividends.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MFC (Manulife Financial Corporation)
2. TSX:WPM (Wheaton Precious Metals Corp.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
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