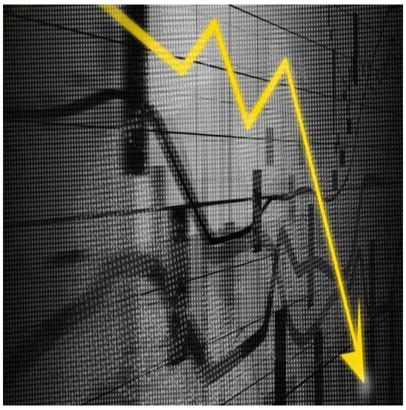


3 Stocks to Add to Your Portfolio in a Market Downturn

Description

Market downturns are inevitable. They occur from time to time. The market downturn we've experienced in the Canadian stock market this year was driven by rising interest rates that are compressing stock valuations. As well, stock valuations were elevated before the decline during the pandemic from quantitative easing.

The stock market is at an interesting level right now; it's sitting at about the 50-week simple moving average. If the market does turn south again, investors can purchase solid stocks with staying power. Here are a few you can keep watching.

Emera stock

Regulated utilities like **Emera** (TSX:EMA) generally report stable and predictable earnings, because it provides services that are essential to the economy no matter if the economic condition is good or bad. Consequently, Emera stock has delivered 10-year total returns of about 9.6% per year.

Emera is a low-beta (i.e., low-volatility) dividend stock. It last increased its quarterly dividend by 4.2% in September. The stock is down about 20% from its peak and 52-week high. At $50.46 per share at writing, it offers a nice yield of 5.5%. And analysts believe it's undervalued by about 14%.

Through 2025, Emera has an $8-9 billion capital plan that aims to grow its rate base by 7-8% per year. Management believes the plan can help support dividend growth of about 4.5% per year in this period.

Its payout ratio is sustainable. On a 5.5% yield and a dividend-growth rate of 4.5%, an investment in Emera stock can deliver total returns of more or less 10% per year through 2025.

All investment comes with risks. Other than market risk, it's also subject to interest rate risk (i.e., rising interest rates would potentially increase its interest expense). Furthermore, 75% of its capital plan is in Florida. The concentration could be good, bad, or as expected, depending on regulation, management execution, and the macro environment.

Sun Life stock

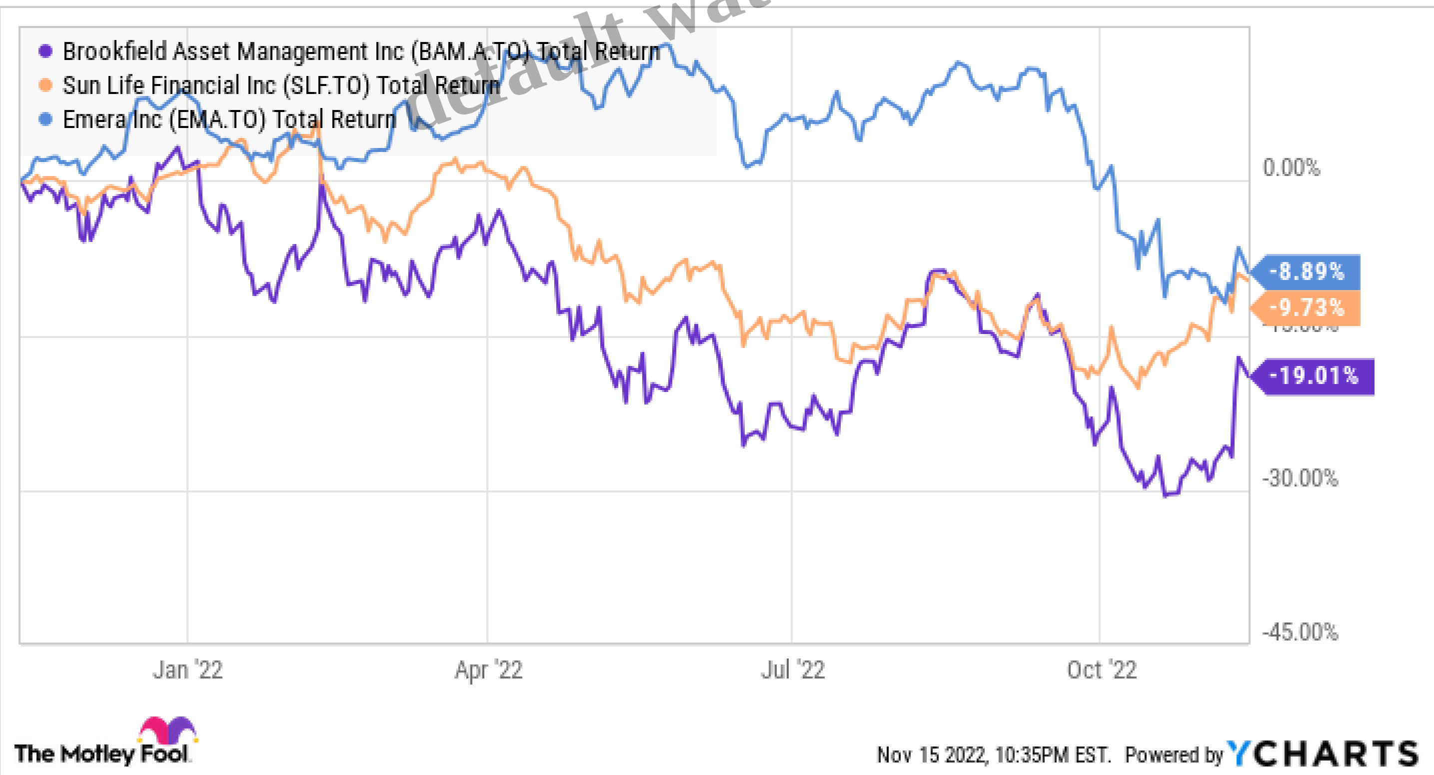
Sun Life Financial (TSX:SLF) is another solid dividend stock to add to your watchlist. It enjoys an A+ S&P credit rating. The life and health insurance company makes stable earnings.

The stock is down about 13% from its all-time and 52-week high. At $61 and change per share, the stock trades at about 10 times earnings, which is a discount of about 17% from its long-term normal valuation. It can expand its multiple on more favourable macro environment.

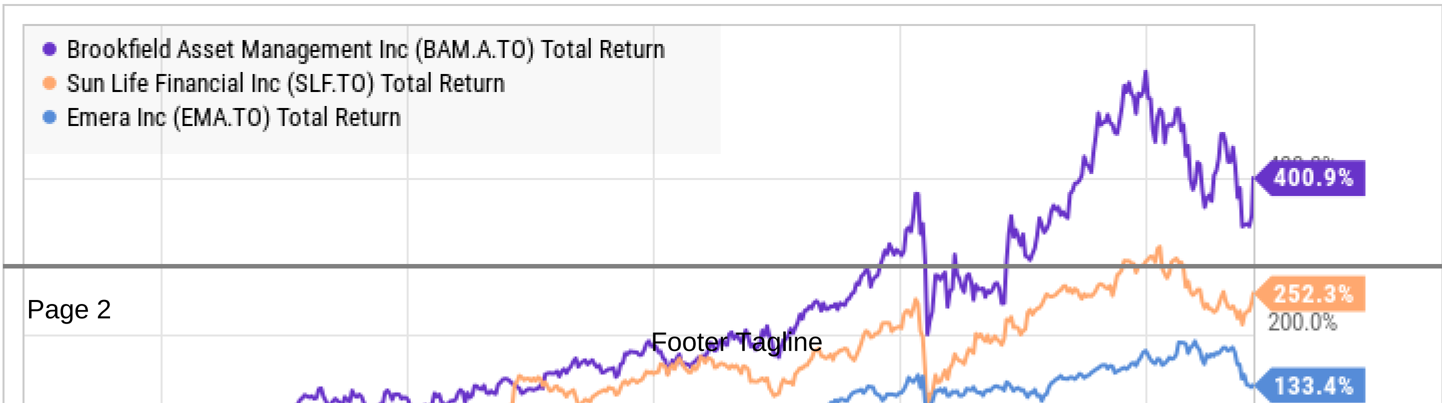
Meanwhile, investors can enjoy a safe yield of 4.7%. Its payout ratio is expected to be about 45% this year. The Canadian Dividend Aristocrat has a five-year dividend-growth rate of 7.4%. Its quarterly dividend is 9.1% higher than it was a year ago.

Brookfield Asset Management

If you want faster wealth creation, a higher-growth dividend stock like **Brookfield Asset Management** (TSX:BAM.A) might do the trick. Just note that the stock could fall harder than Emera or Sun Life in a market downturn. Similarly, it would also rally stronger in a bull market. For illustration, here are their one-year and 10-year total returns.



BAM.A, SLF, and EMA Total Return Level data by YCharts



BAM.A, EMA, and SLF Total Return Level data by YCharts

In fact, Brookfield stock was a great buy in the recent correction that saw the stock fall by about a third from peak to trough.

Brookfield Asset Management has protection for the downside. For instance, it has a globally diverse portfolio of operating businesses that largely generate substantial cash flow. Some of its operating businesses are in infrastructure and renewable power that are listed publicly. Its assets under management include real estate, infrastructure, renewable power, private equity, and credit.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:BN (Brookfield)
2. TSX:EMA (Emera Incorporated)
3. TSX:SLF (Sun Life Financial Inc.)

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