Pair Trade of the Year? 2 Stocks to Buy Together for 2023

Description

It's been a terrible year for investors, new and old. I think it's the worst ever year for those with a 60/40 stock-to-bond portfolio after the bloodbath experienced in both the stock and fixed-income markets. Even precious metals, crypto, and lowly correlated alternative assets have been under pressure in a year where central banks have really taken shots at everyone's net worth.

Despite the ugliness of the year, it's never a good idea to act on emotion. After enduring punishment, you could miss out on a recovery. Recoveries tend to strike when we least expect them to, making the dangers of selling after substantial drops quite elevated. Undoubtedly, it feels good to sell when the negative momentum picks up. I'm sure we've all done it, only to kick ourselves in as little as a few weeks later.

The dangers of timing markets

Stocks fluctuate very wildly. That's the nature of markets these days. A massive plunge could be met with a considerable melt-up rally, the likes of which may not have been seen in years. Take Thursday's hot surge, for example. It saw the S&P 500 rocket more than 5.5%. Miss one or two days like that and you could set your portfolio back many months or even years. That's why investors must find it within them to act when they're calm, cool, and collected. Making moves based on changes in long-term investment theses, rather than letting near-term biases influence decisions that could make a huge impact on one's retirement timeline.

With markets looking to recover ground, I'd also not chase stocks if your liquidity is limited. Instead, I'd stay cautious and only buy what you know to be cheap or undervalued. Also, being mindful of risks during risk-on days like Thursday can be very smart in case the bear market is not yet over with.

As big up days are mixed with the down days, consider a pair trade to balance your risk profile. Shares of cyclical auto-part maker **Magna International** (TSX:MG) looks to be a fine buy alongside a defensive like **Metro** (TSX:MRU).

Magna International

Magna is an auto parts maker that's been feeling the brunt of the pain from Mr. Market of late. Shares nearly lost half their value before ricocheting off the bottom to around $78 and change per share. Today, shares are pretty much where they were hovering in the years before the pandemic. With a 3.08% dividend yield and a modest 18.1 times trailing price-to-earnings (P/E) multiple, I think there's too much recession pessimism in the stock right now.

In the longer term, Magna could find itself riding high on secular tailwinds, as drivers make the shift to electric vehicles gradually over the next decade. A 2023 downturn will be more of a backstep, but one that could precede several leaps forward. The $22.8 billion industrial is a fine risk-on pick for a market turnaround after Thursday's 5% pop.

Metro

To balance a risk-on play like Magna, Metro is an intriguing defensive. In my prior piece covering the name, I'd noted that the grocer has found a way to grow profits without dinging its already inflation-rattled consumers that much more. It's this willingness to give customers a better deal that should help Metro thrive versus rivals well after inflation passes.

With a recession coming up, Metro stock is a great hiding place for your capital. The real risk, I think, is if markets enter rally mode and risk-off plays like Metro are left watching the biggest gains from the sidelines. At just over 20 times P/E, MRU stock is an intriguing risk-off play to balance any risk-on bet.

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