Buying These 2 Stocks Is a Good Way to Hedge Against a Falling Market

Description

The market volatility we saw for much of 2022 looks like it will continue well into 2023. And with that volatility comes the need for investors to hedge against a falling market.

Fortunately, the market gives us plenty of great options to consider, including the following two stocks.

Back to basics with this necessity provider

Inflation impacts all businesses differently. The key for long-term investors is to seek out those stocks which provide a necessity. A prime example to consider is grocery stocks like **Metro** (TSX:MRU).

Metro is one of the largest grocers in the country, with a variety of store banners located primarily in Quebec and Ontario. The grocer also operates a portfolio of pharmacy stores under the Jean Coutu brand. In total, Metro boasts 975 food stores and 645 pharmacy locations.

The defensive appeal of a grocer in a volatile market cannot be understated. Consumers still need to shop for groceries, irrespective of how much the market is shifting. The result is a trade-down, whereby consumers purchase alternative, or more-frugal products, but still purchase goods.

In the case of Metro, even a high-inflation environment still translates into stellar earnings.

In the most recent quarter, Metro posted income of $231.1 million, or $0.97 per diluted share. This represents an 11.3% uptick over the $207.7 million, or $0.85 per diluted share, reported in the same period last year.

As expected, Metro attributed the bump in results to inflation. The results also led Metro to provide shareholders with a generous 10% bump to its quarterly dividend.

That dividend carries a yield of 1.51%, furthering the appeal of Metro as a stock to hedge against a stock market downturn. That appeal is also one of the reasons why Metro's stock price is up 7% over the trailing 12-month period.

Buying gold is a hallmark of volatility

Investors looking to hedge against a falling market have another option to look at. The perceived stability in precious metals, particularly during times of uncertainty isn't anything new. Investors have run to gold for safety for millennia. But rather than the metal itself, there's an alternative, less risky option to consider.

Wheaton Precious Metals (TSX:WPM) is a precious metals stock that isn't a miner. Instead, Wheaton is a streamer. Streamers differ from their traditional miner-peers in that they do not own any mines. Instead, they provide upfront capital to traditional miners to set up the mine and begin operations.

In exchange for that initial investment, streamers are permitted to purchase an amount of the metals produced by the mine, at a considerable discount. Typically, an ounce of gold or silver can be purchased at up to US$400 and US$4.50, respectively.

The streamer can choose to sell those metals at the current market rate, or hold them for a later period. But that's not the only benefit to come from the streaming model.

Because the streamer is hands-off in the day-to-day operations of the mine, it can move onto the next mine. This allows streamers to quickly assemble a portfolio of mines, from different miners, comprising different metals in different locations.

In the case of Wheaton, the company boasts 21 active mines on three continents. Wheaton also has an additional 13 mines in various stages of development.

Adding to its lower-risk and defensive appeal to hedge against a falling market, Wheaton also offers investors a quarterly dividend. That dividend payout is based on the cash generation in the trailing four quarters. In other words, when Wheaton has a good quarter, the dividend will rise along with the stock.

As of the time of writing, Wheaton's dividend works out to a yield of 1.32%.

Hedge against a falling market with the right stocks

No investment is without risk, which is why investors are often told about the importance of diversifying their portfolios. Fortunately, both Metro and Wheaton offer some defensive appeal, which will work well for investors looking to weather the current storm.

In my opinion, a small position in both Metro and Wheaton would do well as part of a well-diversified portfolio.

CATEGORY

1. Investing

2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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