3 Reasons These Stocks Make a Brilliant Combination

Description

These two stocks make a great one-two punch: the century-old **Sun Life Financial Inc** (TSX:SLF)(NYSE:SLF) and a younger, growth-oriented software company, **Kinaxis Inc** (TSX:KXS). Here are three reasons why they work well in a portfolio.

Low correlation of assets

Correlation of holdings is important under any market conditions. During the 2008 Financial Crisis, highly correlated assets tumbled in unison. Financial stocks fell hard and Sun Life was no exception as over 50% of the share price was wiped out in just 8 months.

Defensive stocks like grocer **Metro Inc** (TSX:MRU) actually rallied over 200% starting around the time of the Financial Crisis in 2014.
Although recessions are cyclical, the underlying drivers are often different each time. If we are due, as pundits lead us to believe, then it is not likely to be caused by dubious lending practices again. Sun Life should hold up. Besides, shares have already been dropping, down 14% over the year.

Kinaxis has not been subjected to a major market stress test, as this software-as-a-service company doesn't have a public trading record that goes back to the last recession. No stock is immune to a potential deep cut. Reliance on automotive and electronic sectors could be a vulnerability for Kinaxis' supply chain solutions, although the client base is very broad to help weather sector-specific storms.

A tale of two betas

Compared to four other insurance stocks, Sun Life has lower volatility, as reflected by a low *beta*. This means that Sun Life shares are more tempered during market-wide swings. When it comes to price volatility, Kinaxis can move around tremendously, as much as 3% within one day is not out of the ordinary. Ironically, relative to its sector, Kinaxis also has a pretty reasonable beta. It's fair to say that both Sun Life and Kinaxis beat to their own drum, which gets back to the previous point on assets more immune to market swings.

One income, one growth

Sun Life has increased the dividend as far back as the company investor relations website provides. During an 18-year run, the annual increase was 8.25% and the current yield corresponds to quarterly cash distributions of $0.50 per share. Owning 100 shares of Sun Life would produce $200 from the dividend in year one.

That may not sound like a lot, but if you hold this income producing stock for 10 years, the cumulative dividend cash should amount to just under $3000 of passive income. A few years beyond a decade and that initial investment amount of $4500 would be double from the dividend alone.

Whereas, Kinaxis will continue to provide growth without dividend income. The fast-moving business has no dividend mandate, and that will likely remain the case. I for one am perfectly fine with this. In fact, it would be odd to see an innovative company pouring money into a dividend program.

Ambrose O'Callaghan picked Kinaxis as a top pick for June and December. I'm also impressed, particularly with the subscription revenue that grew 19% organically in the last quarter. Growth stocks are all getting racked with any signs of weakness. Kinaxis reported some delays in business deals, which is enough of a concern to precipitate a >20% drop in share price. If anything, the price drop has helped reel in the lofty price-to-earnings ratio.

Foolish takeaway

Sun Life and Kinaxis are at opposite ends of the valuation spectrum. They will also provide overall return through nearly opposite means. But in this case, opposites attract. Given time, both should double in value; it's just a question of how and when.

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2. TSX:SLF (Sun Life Financial Inc.)

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