

**NUMBER CRUNCHER**

## A portfolio for jittery investors: 15 Canadian stocks expected to withstand market volatility

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### WHAT ARE WE LOOKING FOR?

Canadian stocks that can weather market volatility.

### THE SCREEN

After last week's market correction and continuing uncertainty regarding the COVID-19 outbreak and its effects on global health and the economy, it may be tempting for investors to sell their holdings to cash to avoid further decline. It bears remembering, however, that if your portfolio is down but you choose to wait out the storm, you haven't actually lost any money. Indeed, based on historical evidence, investors will make that loss back should they stay invested over the long term. This is certainly easier said than done. Taking the time to ensure your portfolio has a strong ability to manage market volatility will make staying invested an easier goal to achieve.

Today's strategy is searching for a portfolio of Canadian stocks that are poised to weather volatile markets, with a focus on downside protection to avoid any severe downward fluctuations.

This strategy ranks stocks based on five-year beta (measures a company's sensitivity relative to historical changes in the benchmark – here we use the S&P/TSX Composite Index – low values preferred); industry-relative earnings variability (measures how volatile a company's earnings are relative to its industry median – low values preferred); long-term debt-to-equity ratio (a measure of liquidity, low values preferred); and five-year total return standard deviation (a measure of risk, low values preferred).

Stocks that qualify must have:

- Five-year beta of less than one (in trending markets, a stock with beta less than one has historically moved less than the index);
- Five-year total return standard deviation in the top two-thirds of peers (today this value is 58.1 per cent or less);
- Long-term debt-to-equity ratio less than 1.1;
- Industry-relative earnings variability in the top two-thirds of peers (this value today is 1.7 per cent or less);
- Market capitalization in the top two-thirds of peers (today, this value is \$154.8-million or higher).

#### **MORE ABOUT MORNINGSTAR**

Morningstar Research Inc. provides independent investment research in North America, Europe, Australia and Asia. Its research tool, Morningstar CPMS, provides quantitative North American equity research and portfolio analysis to institutional clients and financial advisers. CPMS data cover more than 95 per cent of the investable North American stock market.

#### **WHAT WE FOUND**

I used Morningstar CPMS to back-test this strategy from January, 2004, to January, 2020. During this process, a maximum of 15 stocks were purchased. Stocks were sold if their five-year beta rose above 1.2 or if their long-term debt-to-equity ratio rose above 1.3. When sold, the positions were replaced with the highest-ranked stock not already owned in the portfolio.

Over this period, the strategy produced an annualized total return of 11.4 per cent while the S&P/TSX Composite returned 7.5 per cent on the same basis. The strategy outperformed in 86 per cent of down markets (measured as quarters where the S&P/TSX experienced negative returns) compared with the benchmark.

Stocks that qualify for purchase into the strategy today are listed in the accompanying table. As always, investors are encouraged to conduct their own independent research before purchasing any of the investments listed here.

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## Select Canadian-listed stocks



RANK	COMPANY	TICKER	MORNINGSTAR SECTOR	MKT. CAP. (\$ MIL.)	5Y BETA	D/E	5Y TTL. RTN. STAND. DEV. (%)
1	Winpak Ltd.	WPK-T	Cons. Cyclical	2,858.1	0.0	0.0	21.4
2	Richelieu Hardware Ltd.	RCH-T	Cons. Cyclical	1,545.8	0.7	0.0	22.2
3	Boston Pizza Royalties I.F.	BPF-UN-T	Cons. Cyclical	288.7	0.9	0.0	17.4
4	Acadian Timber Corp.	ADN-T	Basic Materials	277.0	0.5	0.0	19.9
5	Blackline Safety Corp.	BLN-X	Technology	334.7	0.0	0.0	47.9
6	Firm Capital Mortg.	FC-T	Fin'l Services	385.1	0.3	0.5	11.1
7	Sylogist Ltd.	SYZ-X	Technology	216.4	0.0	0.0	30.4
8	Timbercreek Financial	TF-T	Fin'l Services	797.6	0.5	0.2	11.4
9	Atrium Mortgage Invst.	AI-T	Fin'l Services	573.0	0.6	0.3	12.6
10	Enghouse Systems Ltd.	ENGH-T	Technology	2,798.3	0.5	0.0	28.8
11	Corby Spirit & Wine Ltd.	CSW-A-T	Cons. Defensive	438.4	0.6	0.0	17.9
12	Evertz Technologies	ET-T	Technology	1,267.6	0.0	0.1	21.3
13	Metro Inc.	MRU-T	Cons. Defensive	13,244.9	0.2	0.7	16.5
14	InterRent REIT	IIP-UN-T	Real Estate	2,017.2	0.2	0.5	16.5
15	CGI Inc.	GIB-A-T	Technology	22,666.0	0.6	0.4	18.5

Source: Morningstar Research Inc.

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