

YOUR MONEY

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Protecting Your Portfolio

Q. The markets have been on a roller coaster ride lately. I don't know what to think and am concerned about my portfolio's ability to withstand all the volatility. What can I do to protect my portfolio?

A. You're right that the markets have been volatile over the last little while and, with analysts making predictions at both ends of the economic continuum, it's not surprising you're confused and concerned. However, there are two relevant facts in front of you - the Dow Jones Industrial Average has been marching into bear territory and the TSX/S&P Composite Index has essentially been wiped clean of all its profits for 2008.

Given those facts, you are prudent to think about buffering your portfolio against volatility while maintaining an adequate income stream. Since the markets are likely to be rocky for a while yet, your best plan of action may be a defensive approach. That means searching for investments that are most likely to do well even if the rest of the market underperforms - such as companies offering products or services that people require regardless of the state of the economy.

Historically, the sectors that have performed well during turbulent times have been consumer staples, health care, and utilities. Financials have also been great defensive stocks but I would caution that is not the case anymore. With the majority of banks hitting new 52-week lows, they are no longer the stars of the markets.

Before looking at consumer staples allow me a question. If people have less expendable cash, are they likely to spend it with luxury retailers or is it more probable they'll search out the big box and discount department stores? I believe it's the latter.

Wal-Mart is a discount store that comes to mind in the consumer staples sector. While the rest of the market has been retreating, Wal-Mart has been quietly advancing. Many people would be surprised to know that this company is up almost 20% year-to-date.

Health care is the second sector that deserves consideration. In the absence of a miracle cure for all of our ailments we still need to take care of ourselves and, when our families get sick, we don't debate whether to buy medical supplies. Johnson & Johnson is an example of leadership in health care with excellent R&D supporting a well-diversified range of products that give it an equally diverse revenue base and solid cash flow.

The utilities sector is the third sector that tends to perform nicely during market downturns. Most of Canada's utilities supply infrastructure for public services with some granting indirect access to the commodities markets. Enbridge and TransCanada are good examples. These pipeline companies pay handsome dividends and provide access to the oil and gas sector; essentially granting indirect exposure to the commodities markets.

No matter what you decide to do, you want to make sure that your investments are positioned to withstand volatility. Look for high quality companies with good track records of increasing dividends. Make certain they have strong balance sheets and carry adequate amounts of cash. And just as importantly, discuss your ideas with a qualified professional to be sure they are a good fit for your portfolio.

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