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20 low-volatility TSX-listed stocks for peace of mind

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What are we looking for?

Canadian stocks with the lowest volatility.

These stocks have more to offer than just less turbulence. Academic research in the 1990s showed a surprising anomaly: A portfolio of low volatility stocks – the classic Steady Eddies of the market – tends to beat standard market indexes when evaluated on the basis of risk to reward.

This finding contradicted the notion that taking on higher risk results in better returns, and cast a new light on equities that might have once been dismissed as too boring or conventional.

Institutional investors now use low volatility strategies as a means to capture the "equity return premium" – the excess return that stocks deliver over risk-free investments – with less volatility than buying a market index. For individual investors, investing in low volatility stocks is one way to tiptoe back into stocks with greater peace of mind.

How we did it

There are several ways to measure volatility, but I employed the classic definition of risk, measuring it by the standard deviation of daily returns. Standard deviation is a statistical measure of how much fluctuation is typical in a set of data.

The accompanying table shows the 20 stocks on the S&P/TSX composite index with the lowest volatility.

Rank	Company	Ticker	Market Cap ($-mil)	Annualized Volatility (%)	P/E (LTM)*	Dividend Yield (%)
1	Bank of Montreal	BMO-T	41,125	10.4	10.4	4.7
2	CIBC	CM-T	31,365	10.5	10	4.8
3	BCE	BCE-T	36,587	10.8	13.9	4.9
4	Emera	EMA-T	4,697	10.8	20.3	3.9
5	Toronto-Dominion Bank	TD-T	74,278	11	11.4	4
6	Bell Aliant	BA-T	5,967	11	18.1	7.3
7	First Capital	FCR-T	3,932	11	9.6	4.4
8	Fortis	FTS-T	6,469	11.2	20.4	3.7
9	National Bank	NA-T	11,927	11.3	7.9	4.5
10	Dundee REIT	D.UN-T	3,644	12		6.2
11	TransCanada	TRP-T	34,421	12.1	26.5	3.8
12	Cominar REIT	CUF.UN-T	2,935	12.2		6.1
13	Riocan REIT	REI.UN-T	8,493	12.5		5
14	Enbridge	ENB-T	37,365	13.4	59.2	2.7
15	Manitoba Telecom	MBT-T	2,160	13.4	12.3	5.3
16	Shoppers Drug Mart	SC-T	8,984	14	15.2	2.6
17	Telus	T-T	23,690	14.3	18	3.5
18	Shaw Communications	SJR.B-T	10,419	14.5	13.8	4.4
19	Metro	MRU-T	6,247	14.8	13.1	1.5
20	Cdn National Railway	CNR-T	41,991	15.2	16.1	1.7

** trailing P/E (last 12 months) Source: S&P Capital IQ*

What we found

The low volatility equities consist mostly of large cap stocks, including several banks, real estate investment trusts and telecommunication companies. Utilizing S&P Capital IQ data to look further into the fundamentals of these companies reveals that most trade at reasonable price-earnings ratios with dividend yields that are significantly higher than the market norm.

Will buying low volatility stocks help your returns? At Hillsdale, our Canadian Equity Composite Minimum Risk Strategy, which targets the 100 lowest volatility stocks in the S&P/TSX composite index, has returned an average 17 per cent a year since it was launched Oct. 1, 2011, outpacing the 9.6 per cent annualized return of the S&P/TSX Composite Total Return Index with only half the volatility.

Past performance, of course, is no guarantee of future results. However, the combination of academic research and real world results suggests that investors may want to consider adding more low volatility stocks to their portfolios. As always, you should do your own research before investing in any of the stocks listed here.

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