There’s no way to know what the future holds for stocks, but becoming more cautious could be the best strategy of all after the run-up of the past decade.

One of the best places to take cover in a volatile stock market is in high dividend stocks.

The S&P 500 is hanging right around 2850. In late January, 2018, it hit a then closing peak of 2872. In the 17 months since it’s struggled a couple of times to eke out very slight new highs. But it’s also taken some scary plunges along the way. Is it possible the market will be no better than range bound for the foreseeable future? If so, it’ll require a different way of investing.
From early in 2009, when the last stock market plunge ended, straight through to the end of 2017, the market reliably produced double-digit returns nearly every year. But more recent trends may suggest we’re now in a different type of market entirely, one that may prove less cooperative.

“Investing can be fruitful. It always can,” says *Forbes* senior contributor, Rob Isbitts. “However, the way you profited the past 10 years will not be nearly as effective. A different, more flexible approach will be required.”

If you haven’t already, it may be time to consider ways to invest in what suddenly looks like a less stable market. After all, the time to prepare for trouble is before it happens.

Here are five potential options.

1. **Accumulate Cash**

A range bound market is not a time to panic sell. But it may be an ideal time to cut back, especially if you’re an index investor. True, the market may produce **annual returns of around 10%**, but that’s only an average. It doesn’t happen every year, and there have been numerous years when the markets reversed.

There’s no way to know what the future holds for stocks, but becoming more cautious could be the best strategy of all after the run-up of the
past decade. There’s no need to begin dumping stocks, and doing so can cost you in the long run. If you already have a large stock position in your portfolio, hold tight. But redirect fresh contributions into cash equivalents.

There are two primary reasons for raising cash during a time of market uncertainty:

- To shield at least part of your portfolio from potential market declines, and
- To raise capital to buy stock when the market dips.

By holding most of your current stock positions, you’ll benefit from a market upturn. But by building up your cash position, you’ll be in an excellent position to increase your stock holdings if the market declines.

True, interest rates being paid on cash balances are low. That’s true both in brokerage cash sweep accounts and at local banks and credit unions. But there are online banks that pay much higher rates. For example, Ally Bank and CIT Bank each pay well over 2% on basic savings accounts. That may not match the double-digit returns possible in stocks, but it will be a smart move if the market takes a hit.

You can link online accounts to your brokerage account, and transfer funds when a buying opportunity in the market arises.

2. High Dividend Stocks

One of the best places to take cover in a volatile stock market is in high dividend stocks. The dividends themselves provide something of a cushion. Even though the price of the underlying stock may fall, you’re still earning steady dividend income. But the income also helps to stabilize the price. After all, in a market where capital appreciation is less
certain, income becomes more important. Investors are naturally drawn to the reliability of dividend income, which can serve to minimize stock price declines.

One group of stocks worth investigating are referred to as “Dividend Aristocrats”. According to the website Sure Dividend, Dividend Aristocrats are drawn from the S&P 500, must meet certain size and liquidity requirements, and have at least 25 consecutive years of dividend increases. There are currently 57 stocks on the list.

It’s not just high dividends that make these stocks aristocrats. Rather, it’s the many years of consecutive dividend increases. Regularly rising dividend payouts are the result of steady increases in net earnings. This is a clear indication of the fundamental strength of these companies. And it shows in their long-term performance.

“High dividend paying stocks are a really great way to add stability to any portfolio,” says Anthony Montenegro, founder of The Blackmont Group, a Southern California wealth management firm. Montenegro adds, “the steady income paid from these stocks reduce the impact of price volatility and can contribute to higher average gains over time within a well-diversified portfolio that includes companies with higher growth potential.”

The Dividend Aristocrats Index has generated annualized total returns of 15.5% versus 14.3% for the S&P 500 over the past ten years.

Some of the companies included on the Dividend Aristocrat list include well-known names like AbbVie, Abbott Labs, ADP, Aflac, Cardinal Health, Chevron, General Dynamics, Johnson & Johnson, Coca-Cola, Lowe’s, McDonald’s, Pepsi, Procter & Gamble, Sysco, AT&T, Target, Walmart, Walgreens, and Exxon.
3. Investing in Value Stocks

Value stocks have historically been considered as one of the most successful ways to invest in the market. It’s an investment strategy followed closely by Warren Buffett, and it helped make him one of the wealthiest people in the world.

The basic concept is to identify stocks that represent bargains. This is usually because such companies are out-of-favor with the general investing public. They’re considered to be undervalued based on certain metrics that can include a price-to-earnings ratio lower than their industry-standard, below average price-to-book ratio, or an above average dividend yield.

Any of these may be the result of a recent bout of bad news that depressed a company’s stock value. For example, the company may have faced regulatory action, a major lawsuit, negative media attention, or a
series of poor earnings. Though the event that caused the drop in stock price may have passed, the price still hasn’t recovered. Investing in these companies can be one of the best long-term investment plays because the stock is cheap relative to its competitors.

In a market where the S&P 500 may no longer perform so reliably, investors may look more closely for potential value stocks. If so, these stocks can be a way to continue growing your portfolio even if the general market has gone flat.

But that outcome may be less than guaranteed. A recent article in MarketWatch, Value stocks are trading at the steepest discount in history reports that value stocks as a group have fallen out of favor in the aftermath of the 2008-2009 stock market crash. Investors have turned their attention to disruptive technology companies, like the so-called FAANG stocks.

"Historically, investors that participated in Value and Small companies have been rewarded with a return premium," says Tom Diem, CFP, an Indiana financial advisor at Diem Wealth Management. "Small Value has been a good long-term performer. Adding a little weight in your portfolio to these asset classes could bump up your returns going forward. This can be accomplished through mutual funds and asset managers that have proven expertise in these classes. One can also find low cost index funds and structured funds in these areas."

The stock market has a long and well-documented history of changing investor tastes. The laser-focus on high-tech growth stocks will only work as long as it continues to be successful. If that’s no longer apparent, investors will take their money elsewhere. Returning to a time-honored strategy, like investing in value stocks, could be that elsewhere.
4. Sectors Likely to Outperform the Market

Over most of the past decade, the action in stocks has been in the S&P 500. Few if any sectors have outperformed the index, resulting in a concentration of investor funds in this single asset class. But just because the S&P 500 has been providing reliable returns doesn’t mean there can’t or won’t be a change in market leadership.

Subtle changes in the forces driving the market may be setting up a new dynamic. And it’s generally true that flat or declining markets tend to favor individual stock or sectors. That’s become something of a lost art in recent years, as investors have been richly and consistently rewarded simply by investing in the S&P 500.

But there may be signs that’s about to change.

“Investors should expect significant performance divergence among the sectors of the S&P,” says Forbes contributor, Oliver Pursche. “Rate sensitive sectors such as utilities, consumer staples, communication services and financials will outperform their more cyclical counterparts.”

Other sectors worth investigating include healthcare and energy. Healthcare tends to perform well despite volatility in the general stock market. Meanwhile, energy has the potential to outperform the market due to international disturbances in supply. If the current war of words between the US and Iran erupts into a hot war, energy prices would be almost certain to spike.

Another major sector is foreign emerging markets. “The reality is that international stocks, whether they be emerging markets such as China, Eastern Europe or Latin America (or a developed overseas market such as Japan’s) are compellingly undervalued, while U.S. stocks are precariously overvalued,” says Forbes contributor, James Berman. “In
fact, international stocks are undervalued to roughly the same extent that U.S. stocks are overvalued.”

It may be time to begin loading up on foreign stocks.

5. Real Estate Investment Trusts

The two primary growth asset classes are stocks and real estate. Depending on the decade, one or the other has been the primary investment of its day. One of the best ways to diversify beyond an all-stock growth allocation is by investing in real estate. Unfortunately, owning individual investment property requires both a lot of capital and hands-on participation. It's also a very specialized form of investing.

If you want to spread your portfolio into real estate, but don’t want the hassles that come with direct ownership, you do have an option. And a very good one at that.

Real estate investment trusts, or REITs for short, are something like mutual funds that hold portfolios of real estate. Investments are typically in commercial properties, like office buildings and retail shopping centers, but often large apartment complexes as well. Though they primarily generate dividend income, they can also produce capital appreciation from the underlying properties.

REITs have been providing returns that are at least comparable to the S&P 500. The MSCI US REIT Index has produced compound annual returns of 14.75% over the past 10 years (through June 6). That's nearly a full percentage point better than the 13.79% 10-year average return on the S&P 500 over the same timeframe.

But the basic idea of investing in REITs isn’t necessarily to outperform stocks, but rather to add an important diversification to your portfolio.
Commercial real estate doesn’t necessarily follow the same cyclical patterns as stocks. REITs can continue to produce high returns even when the stock market goes flat. It’s a way of ensuring that at least part of your portfolio continues to provide healthy returns, even if gains from stocks become lackluster.

One of the major advantages of REITs is you can hold them in a typical portfolio, along with stocks and bonds. It’s an excellent way of diversifying the growth portion of your portfolio.

**Conclusion**

The purpose of investigating ways to invest in a less stable market isn’t to advise making wholesale changes in your current portfolio. No matter what, the **long-term favors a large investment in the general stock market**. But at the same time, the stock market is subject to headwinds that can cause you to question your original strategy.

You don’t necessarily need to change that strategy, unless of course your portfolio is comprised 100% of stocks. Instead, you can just change your direction a bit and add allocations into other assets that will strengthen your portfolio for the long-term. And given that investing is a long-term activity, that only makes good sense.

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**Jeff Rose**

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