

Defensive Stocks

Defensive stocks are stocks that tend to be immune to the business cycle. They tend to be steady growers regardless of what is happening to the economy. Consequently, they tend to do relatively well when the economy and the stock market are falling; and they tend to do relatively poorly when the economy and the stock market are soaring. Since they thrive in bad times, they are termed “defensive.”

Defensive stocks are usually in industries that provide essential goods and services. These essentials are not easily cut out of consumers budgets when the economy is falling. And since they tend to be necessities (and not luxuries), consumers usually don't buy more of them when the economy is thriving.

Some classic defensive stocks are stocks of companies that provide funeral services, medical care, and food processing. Some defensive stocks that might surprise people include tobacco companies and candy companies. Even though consumers can cut tobacco and candy out of their budgets when times are bad, they usually do not.