3 Recession-Proof Stocks Yielding Up to 7.6%

Description

“What happened?” I whispered to the computer screen.

It felt like there was a giant pit in my stomach. A part of me wanted to crawl under a rock and never buy another stock again.

It was 2009, the height of the financial crisis. In a desperate bid to conserve cash, companies were cutting their payouts left and right. Suddenly, my steady stream of dividend income had been reduced to a trickle. It was a that moment I realized that it wasn’t just a stock’s yield that mattered, but also the sustainably of that distribution.

At that same I also started to see the wisdom of recession-proof stocks. Put simply, these are companies that you can buy today and hold for the rest of your life. Of course there are no guarantees, but when you own a share of these wonderful businesses you no longer need to worry about things like flash crashes, inflation, bear markets, or recessions.

If history is any guide, these boring businesses will just continue to crank out consistent dividend income for shareholders year after year. That’s why it’s companies like these that should serve as the foundation for any income portfolio. So with this theme in mind, here are my three favourite recession-proof dividend stocks.

Dream Office REIT

I’m a big fan of REITs, or real estate investment trusts. Simply put, REITs exist to finance real estate transactions, collect rent cheques, and distribute big royalties to unit-holders. Best of all, REITs are required by law to pay out all of their profits to investors and can avoid paying sky-high corporate income taxes to Revenue Canada.

Dream Office REIT (TSX: D.UN), formally known as Dundee REIT, is one of the best names in the space. The company owns 185 properties totalling 28 million square feet of some of the most valuable office space in the country. Best of all, Dream Office rents its properties to only top quality tenants like **Telus**, the **Bank of Nova Scotia**, and the government of Canada. Needless to say, these types of tenants always pay their rent on time and aren't going away any time soon.

Because the trust returns most of its earnings back to unitholders, the firm yields a hearty 7.6%, a distribution that held strong even through the worst of the financial crisis. Even better, this payout is made monthly. That's great for investors who rely on dividend income to pay the bills as it's easier to match cash flow with expenses.

Emera

Emera (TSX: EMA), the parent company of Nova Scotia Power, is an ideal choice for the risk-adverse income investor. Currently, more than 80% of the company's earnings are from safe regulated businesses, which includes electric utilities in Nova Scotia, Maine, and the Caribbean. These businesses generate steady, predictable cash flow.

Utilities have a reputation of being boring, stodgy investments. However, Emera shareholders aren't complaining. Over the past 10 years the stock has delivered a 105% return excluding dividends, handily beating the **S&P/TSX Composite Index** by 30%.

What's more, Emera has increased its dividend to shareholders more than 10 times over the decade at a 7% annual clip. Today, the dividend yield at 4.3% is higher than rivals like **Fortis** and **Canadian Utilities**, and investors can expect that dividend to rise in lockstep with earnings growth going forward.

TransCanada

Of the companies on this list, TransCanada offers the best combination of safety, income, and growth. The company owns and operates one of the largest pipeline and utility networks in the country. Like a toll-taker, TransCanada charges a fee for every barrel of oil and gas that flows through its network, allowing it to generate consistent cash flow regardless of commodity prices.

More importantly, TransCanada has a near monopoly on these assets. Building a competing pipeline is a long and expensive process. In order for another company to build a competing project, it would have to spend billions of dollars to purchase the right of ways from landowners and receive approval from regulators. Not to mention winning over the opinion of a sceptical public.

This has allowed TransCanada to post outstanding returns for shareholders year after year. Over the past 10 years, management has increased the dividend 140%. And with oil sands production projected to grow threefold through 2030, shareholders can expect a steady stream of dividend hikes in the decades to come.

Don't get caught naked when the tide goes out

Remember, when building a portfolio of dividend-paying companies it's not just a stock's yield that matters. You also have to consider the sustainably of that distribution. While there are no guarantees in investing, the companies listed above provide the best income security when the next recession hits. That's why they should serve as a foundation in any income portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:EMA (Emera Incorporated)
4. TSX:TRP (TC Energy Corporation)

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