3 Defensive Dividend Champions to Shield Your Portfolio Against an Economic Downturn

Description

Defensive stocks are non-cyclical stocks that will defend your portfolio from the losses typically sustained during downturns in the economic cycle. They are traditionally found in industries with products and services that have relatively inelastic demand because they are important components of our everyday lives. These include utilities, banking, telecommunications, and consumer staples.

Now with a number of the world's major economies slowing and the demand for key inputs into economic activity including manufacturing waning, there are signs now is the time to bolster your portfolio with some defensive stocks.

Let's take a closer look at five Canadian 'blue chip' stocks that possess defensive characteristics and continue to reward investors during tough times paying sustainable dividends with tasty yields.

Bank of Nova Scotia

Canada's third largest bank, the **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) is a solid defensive stock. Not only are banking products and services in constant demand but its outlook is not tied solely to the Canadian or U.S. economies.

It has established a significant business franchise in some of the fastest growing economies in Latin America, Chile, Colombia, and Peru and these economies traditionally have performed strongly when major developed economies have slowed. Over the long-term these franchises will be key growth drivers, reducing dependence on the already saturated Canadian financial services market.

The bank is also well positioned to continue rewarding investors, paying a dividend with a juicy yield of 3.8%, which with a payout ratio of 45%, is certainly sustainable and leaves sufficient room for further dividend hikes.

Enbridge Inc.

Despite a number of oil producers in the energy patch seeing earnings suffer from lower crude prices, **Enbridge Inc.**

(TSX: ENB)(NYSE: ENB), Canada's largest pipeline, remains well positioned to weather any economic downturn.

It has established a dominant positon as Canada's largest midstream company with the largest pipeline network and is responsible for shipping over half of the Canadian crude exported to U.S. refineries. When these factors are considered in conjunction with growing Canadian crude production and insufficient pipeline capacity, its earnings growth is virtually guaranteed.

Enbridge is also focused on expanding its pipeline network and tapping new refining markets, particularly in Asia, with China now the world's largest net importer of crude. This allows Enbridge to protect its competitive advantage and further shore up its wide economic moat so as to retain its industry-leading position.

Each of these factors highlights the strengths of Enbridge's business and are key reasons it is a dividend machine, consistently paying a steadily appreciating dividend for 60 years. Currently, Enbridge rewards investors with a sustainable dividend that yields 2.8% and has a compound annual growth rate over that period in excess of 10%.

These characteristics make Enbridge what I believe to be the perfect defensive stock, which will continue to reward investors as earnings grow despite the economic cycle.

BCE Inc.

Telecommunications has long been a favorite defensive sector among investors. But deregulation and rapidly advancing technology have eroded many of its defensive characteristics because of growing competition and alternate means of communication. However, with businesses increasingly dependent on timely access to information and the need to remain connected an ever-important part of our modern lives, demand for many of its products and services is inelastic.

My preferred defensive stock in the sector by virtue of its dominant market positioned is **BCE Inc.** (TSX; BCE)(NYSE: BCE). It is Canada's largest telecommunications company with over 21 million subscribers.

BCE pays a sustainable dividend with a very tasty yield of 5.2% and has a very impressive five-year growth rate of 31%, making it a dividend machine.

Its outlook remains solid, with the company expanding its network reach, growing the suite of services available to subscribers while cutting costs and boosting capital efficiencies. These actions will allow BCE to continue growing earnings and retain its dominant market position, making it a solid defensive dividend champion for any portfolio.

Each of the three companies possesses a dominant market position in its respective industry, pays a sustainable dividend with a noteworthy yield, and is well placed to weather any downturn in the economic cycle while rewarding investors with a steadily growing dividend.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:ENB (Enbridge Inc.)

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