Prepare for a Market Correction With These 2 Stocks

Description

With uncertain markets ahead, investors should be looking to add defensive stocks to their portfolios. Defensive stocks are shares in companies that have low betas and recurring cash flows in industries of need. By adding these types of stocks to a portfolio, investors can expect steady returns for years to come regardless of the state of the market.

One industry that has a plethora of these types of stocks is the utility industry. Individuals are continually consuming more and more energy, and the demand is sure to continue in any market condition.

Algonquin Power & Utilities Corp. (TSX:AQN)(NYSE:AQN) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) are two low-beta stocks with strong cash flows and sustainable yields for income investors.

Algonquin

Algonquin's main sources of revenue derive from electricity, natural gas, and water distributions. In addition, the company has been adding clean-energy generators such as wind and solar energy to its portfolio. Therefore, the company's diversified energy portfolio should help strengthen its recurring cash flows and reduce the company's dividend-payout ratio.

From a valuation perspective, the stock is still trading at price-to-earnings ratio of about 28. This is above the industry average of 16.7, but below the company's five-year average of 33.6. Therefore, the current valuation creates an entry point for a stock with a juicy dividend yield of 4.8% without investors overpaying for it. In addition, with a beta of 0.38, investors can depend on that yield regardless of swings in the market.

Fortis

Fortis is the largest investor-owned utility in Canada. The company has a strong source of recurring cash flows with over 95% of its $48 billion assets being regulated. With these cash flows, the company has adopted a growth-by-acquisition strategy which should increase its earnings by 5% annually.

Although the economic moat of the utility industry is narrow, Fortis has an advantage over competitors due to the size of the company. By being a large-scale energy provider, Fortis is able to deliver its needed services at a lower cost. Therefore, the company is able to widen its economic moat and continue to sustain and grow its current dividend yield of 3.7%.

With a beta of 0.08, Fortis will continue its steady growth, even with market uncertainty looming.

Foolish bottom line

The one risk associated with these types of stocks is the threat of rising interest rates. If interest rates rise significantly, both companies' cash flows could take a hit. However, the threat of rising interest rates is not as imminent as a market correction. Therefore, investors should consider adding these stocks to their portfolios to mitigate the damage of a market correction.

Fool on!

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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