Protect Your Portfolio From a Correction With This Utility Stock

Description

Utility stocks are the cornerstone of any cautious investor's portfolio. They provide a safety net from economic downturns as well as a bountiful dividend yield that will be intact through thick and thin. Sure, you're not going to get the amount of growth as you would with a high-flying tech stock, but if you're a long-term investor, you're going to get stability and peace of mind knowing that you'll fair well if the markets decided to crash tomorrow.

There are a ton of bullish investors right now who are still pumped from the Trump Rally. Donald Trump is a pro-business guy, and he's made it very clear that he's willing to do anything that puts "America first." He wants to create jobs, and he's going to do this by introducing new policies like corporate tax cuts and removal of unnecessary regulations which may hinder a company's ability to grow rapidly.

Even long-time bearish investor Prem Watsa has lost his bearishness; he eliminated hedges that had been dragging him down over the past year.

I believe the Trump Rally still has more room to go, even though the momentum has slowed down, but this doesn't mean you should be dumping all your defensive holdings such as utilities and REITs. Sure, it's good to re-allocate capital, but make sure you don't time the market because you'll need your defensive holdings once the markets start heading south, because, as we both know, there's no alarm bell that goes off when this happens. So, it's important to have income-paying defensive names in your portfolio once the inevitable correction presents itself.

Valuations are getting ahead of themselves, and the average investor has become quite greedy since the Trump presidential victory. As Warren Buffett used to say: "..be fearful when others are greedy, and greedy when others are fearful."

Canadian Utilities Limited (TSX:CU) transmits and distributes electricity and natural gas. The company is a dividend-growth king that I think many investors overlook. During the Great Recession, the company dropped by only 35%, while many other companies lost 50% or more of their value.

The stock currently pays shareholders a juicy 3.65% dividend yield, which is substantially higher than the company's five-year historical average yield of 3%. Sure, the company isn't a huge growth name, but I believe you'll do very well with this stock in the event of a market correction.

The stock currently has a 19 price-to-earnings multiple and a 2.2 price-to-book multiple, which appears to be fairly valued. This is great considering how many overvalued stocks are on the market right these days. The stock isn't a steal like it was in the early part of last year, so I'd buy a little bit now and more on any dips that the stock may experience later in the year.

Stay smart. Stay hungry. Stay Foolish.

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