Why You Should Have Utilities in Your Portfolio

Description

No one can tell you if you should or shouldn't own certain stocks. However, there are multiple benefits in owning quality utilities. That's why I think you should at least consider them for your portfolio.

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In fact, stable utilities make up one of the biggest weightings in retirement stock portfolios. That said, it doesn't mean that younger investors shouldn't invest in the seemingly boring industry.

Low volatility

Many investors consider volatility a form of risk. The more volatile a stock, the higher the risk. Quality utilities such as **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Emera Inc.** (TSX:EMA) have low betas and tend to have below-average volatility compared to the market.

This means that even in a market-wide crash, these utilities should fall less than the average stock. In the last recession, Fortis and Emera shares fell about 25% and 20%, respectively, from peak to trough. Compare that to the Canadian market (using **iShares S&P/TSX 60 Index Fund** as a proxy) and the U.S. market (S&P 500), which fell about 44% and 50%, respectively, from peak to trough.

Get more income from stable utilities

Utilities also tend to offer above-average yields compared to the market. Fortis and Emera offer yields of 3.6% and 4.4%, respectively. These are larger yields than the 2.6% yield offered by iShares S&P/TSX 60 Index Fund and the 1.9% yield offered by **SPDR S&P 500 ETF Trust** today.

In other words, you can get 38% or 69% more income from investing in Fortis and Emera, respectively, today compared to investing in the Canadian market. This is a difference of earning $3,000 a month from the market or $4,140 and $5,070 per month from investing in Fortis or Emera, respectively.

Please note that I'm not suggesting one should invest all their money in utilities or any other big yielders. I'm only pointing out how much more income stable utilities can offer. The U.S. market, for example, offers much more diversification compared to investing in one or two utilities.

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Get growing income to beat inflation

Many investors have the common goal of maintaining purchasing power. That's one of their many goals.

Stable utilities such as Fortis and Emera offer more than that with their above-average yields and growing dividends.

Both stocks have increased their dividends for at least a decade. Fortis's and Emera's three-year dividend-growth rates are 7.1% and 12.2%, respectively. These growth rates more than beat the long-term inflation rate of 3-4%.

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Utilities can be exciting

Younger investors can consider higher growth utilities with higher risk. For example, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) has appreciated 18.2% in the last 12 months compared to Fortis, which has appreciated 9.5%. Algonquin even offers a bigger yield than Fortis. Currently, Algonquin yields 4.8%.

Why is Algonquin higher risk? As an example, compared to Fortis, it earns a bigger portion of unregulated earnings. This means its earnings are more volatile, but it can also deliver on the upside as well.

For the next few years, investors can expect the highest dividend growth of 10% a year from Algonquin, followed by roughly 8% from Emera and 6% from Fortis.

Investor takeaway

Quality utilities such as Fortis and Emera can be excellent stabilizers for your portfolio, whereas Algonquin offers the highest growth. All three utilities offer nice yields of 3.6-4.8% and dividend growth of 6-10% per year, which can deliver reasonable returns in any market environment. In the event of a market crash (and we know it'll happen again eventually), investors can collect growing dividends and wait for a market recovery.

CATEGORY

1. Dividend Stocks
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1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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