Is Your Portfolio Prepared for the Next Market Crash?

Description

Many investors have been overly bullish since Trump's presidential victory. While it's easy to get caught in the hype of buying cyclical stocks over defensive ones, sometimes it pays to take a step back and think about the long-term goals of your portfolio.

The bull market is getting old, and we're way overdue for a correction. What may trigger the next correction is anyone's guess, but the next downfall is coming, and it would be a wise decision to be well equipped to deal with a sudden decline in stock prices.

If Trump follows through on his promises, then there's no doubt that the Canadian and U.S. economies will receive a bump, but the general public appears to have already priced this in to the market during the "Trump Bump," and, as we found out Thursday, the markets could start giving up the gains from this rally if the Trump agenda doesn't go according to plan.

I believe Trump's agenda will still be the catalyst for another rally, but it's impossible to say when the agenda will come to fruition and if all of Trump's promises will be kept. If the Trump agenda is delayed, many short-term thinkers and momentum traders will jump out of the markets, causing some short-term pain. If by some chance the Trump agenda is in jeopardy, then the markets could experience a violent correction, and overly bullish investors without defensive positions could get burned.

Canadian Utilities Limited (TSX:CU) is a fantastic defensive play that will solidify your portfolio in the event of a market collapse. During the Financial Crisis, the stock only dropped around 35% from peak to trough, while the markets dropped north of 50%. Investors who didn't panic during the crash and held on to their shares collected solid dividend payments while they waited for shares to rebound.

Canadian Utilities is a diversified business that provides services in the electricity, pipelines and liquids, and corporate and other segments. The company has one of the most stable dividends out there and one of the longest active streaks for annual dividend raises. Despite being in the low-growth utility business, Canadian Utilities actually plans to invest heavily in cash flow-boosting initiatives over the next few years which will support future dividend raises, further extending its streak.

The stock currently offers a bountiful 3.42% yield, which is higher than the company's five-year historical average yield of 3%. With a 19 price-to-earnings multiple, Canadian Utilities is also trading at a slight discount compared to historical averages.

In an expensive market, it’s a very wise decision to pick up shares of this high-quality dividend-growth king at a slight discount. Although shares aren’t a steal, as they were a few months ago, I still believe long-term investors will be happy holding on to this gem for the next few years as the bull market continues to age.

Bottom line

Even in the most bullish scenarios, it’s always important to reserve a spot in your portfolio for defensive stocks that will do well once the next correction comes around, because you don’t want to be left with your pants down if the markets suddenly decided to take a plunge.

Stay smart. Stay hungry. Stay Foolish.

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