TFSA Investors: Prepare Yourself for the Next Correction With These Defensive Blue Chips

Description

Many investors are optimistic about what 2018 will have in store, but some pundits agree that a higher degree of volatility can be expected with stocks consistently shooting to new all-time highs. The much-anticipated downfall of cryptocurrencies could also be in the cards next year as well, which could spread to the financial markets and cause a great deal of distress for investors who aren't properly diversified.

Also, I don't think the rotation from expensive growth stocks to value plays is over yet. If the cryptocurrency bubble pops next year, I believe we'll see the rotation continue, as the frightening collapse of the speculative asset will cause the general public to lose their taste for overvalued growth stocks that have been among the biggest winners in 2017.

The importance of a diversified portfolio

A new year means another $5,500 that you'll need to put to work in your TFSA. While it may be tempting to put it all on expensive high-growth stocks in the tech sector, you should probably take some time to think about what your portfolio really needs.

With a properly diversified portfolio, you can save yourself from completely avoidable pain once an industry-specific sell-off occurs.

The recent market rally may have made you move cash from defensive names into cyclical ones, but as the new year approaches, it may make sense to start picking up some defensive stocks before things take an ugly turn. There's no bell that goes off when the markets reach their peak, so it's always a good idea to bolster your portfolio with high-yielding defensive names that'll pad market volatility.

Here are two defensive blue chips you may want to consider buying with your 2018 TFSA contributions:

Fortis Inc. (TSX:FTS)(NYSE:FTS)

No surprise here. Fortis is an excellent way to play defence for investors who want protection against the next market downfall. The bountiful 3.61% dividend yield will make any volatility spikes more bearable, and if the markets corrected violently, the capital losses would be much less than that of non-defensive stocks.

Fortis has grown its dividend for 44 straight years, and rest assured, more of the same is likely in the cards, regardless of which direction the markets head.

With an above-average growth profile compared to the industry average, I think Fortis is an incredibly low-risk way to win over the long term, especially for those who are expecting a market crash before 2020.

Canadian Utilities Limited (TSX:CU)

Canadian Utilities is a solid preserver of wealth. It is down ~10% from its 52-week highs. The stock has a bountiful 3.78% dividend yield and is undervalued based on traditional valuation metrics.

The stock currently trades at an 18.6 price-to-earnings multiple, a 2.1 price-to-book multiple, and a 2.6 price-to-sales multiple, all of which are lower than the company's five-year historical average multiples of 19.7, 2.3, and 2.9, respectively.

It's not a huge discount by any means, but when it comes to margin of safety, Canadian Utilities is a solid bet for those preparing a bomb shelter for their portfolios. Like Fortis, Canadian Utilities is a dividend-growth king that will reward income investors the longer they hang on to it.

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