5 Top Dividend Stocks to Buy to Cut Your Risk in a Bull Market

Description

Rising bonds yields in North America are reminding stock investors that the good times aren't going to stay forever.

Stock markets around the world fell on January 30 on rising fears that climbing bond yields could sputter the stock market's decade-old rally. Rising bond yields mean that the premium between risky (equities) and safe assets (government bonds) is shrinking.

Over the past decade, investors have flocked to stocks that paid growing dividends and massive capital gains as central bankers globally kept interest rates very low. In North America, they remained close to zero, and as a result bonds paid investors zilch.

But that equation is changing fast in North America where bond yields are climbing, as central bankers remove the monetary stimulus. In the U.S., the yield on the benchmark 10-year Treasury note reached 2.75% for the first time in almost four years.

In Canada, the 10-year government bond yielded 2.282% after the central bank raised interest rates three times since July with expectations for another hike by May.

This positive outlook is a great news for consumers in general, as a better economy should produce more jobs and more business opportunities. But for stock investors, rising interest rates are a matter of concern, especially when valuations are so stretched.

So, how you could balance your portfolio to deal with a possibility of the market taking an ugly turn or a sudden crash?

Diversifying your portfolio with disaster-proof stocks is a tested way to ride through these market shocks. Some businesses are built to produce cash in every cycle of the economy. And investors can count on their dividend cheques to arrive in the mail.

Five top defensive stocks

In Canada, utilities and infrastructure providers, such as **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP), have a unique position in our economy, as they provide essential services we can't avoid, even during the worst of economic cycles. Most people will cut their discretionary spending before they stop paying for electricity bills or using toll roads and bridges.

Another way to play defensive is to buy the healthcare stocks as the Canadian population gets older. My favourite in this area is **Extendicare Inc.** (TSX:EXE), which is one of Canada's largest owners and operators of retirement homes. The company also runs a separate home-health division, which should grow significantly as more and more baby boomers use these facilities.

Canada's largest telecom utility **BCE Inc.** (TSX:BCE)(NYSE:BCE) is another safe stock to play this theme. This company, with more than 100 years of dividend-paying history, has been through many economic cycles and market downturns. But it has never stopped sending dividend cheques to its investors.

Dollarama Inc. (TSX:DOL), Canada's largest owner and operator of dollar stores, fits very nicely in a portfolio designed to absorb market shocks. The discount retailer provides households daily consumption items at prices others can't match. The discount chain has built its business strategy by targeting the Canadian middle class, which is growing and very price conscious.

The bottom line

Though I don't think there's an imminent threat to the economy and markets in the short run, investors should always get ready for an eventual market downturn. These disaster-proof stocks can stabilize your portfolio when the next crash comes.

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2. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
3. NYSE:FTS (Fortis Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
6. TSX:DOL (Dollarama Inc.)
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