3 Defensive Dividend Stocks to Buy Amid the Market Sell-Off

Description

The markets were absurdly euphoric to start off 2018 with the **S&P 500** surging at a higher rate after reaching what appeared to be an inflection point. Ray Dalio, a very smart billionaire hedge fund manager, stated “If you’re holding cash, you’re going to feel pretty stupid.”

Fast forward to today, the Dow plunged by an ominous 666 points (-2.54%) in a single trading session. You’re probably feeling pretty silly if you’re fully invested without any cash on hand, because I think this is a healthy correction and an opportunity for long-term investors to cash in on some wonderful deals!

Market corrections happen. We need to stop fearing them and start embracing them as buying opportunities. The U.S. stock market has skyrocketed, and a 10-20% correction should be nothing to panic about, especially since the U.S. economy continues to show signs of incredible strength. Investors are fearful over interest rate hikes, but while they’re taking profits off the table, you should be planning to buy a beaten-up stock on your radar in the weeks ahead.

One shouldn’t be overly complacent over the U.S. market’s recent melt-up. Canadian investors need to stay the course with their high-quality Canadian stocks and not dump them in favour of U.S. stocks for the momentum. Canadian stocks are a far better value; there are many unappreciated Canadian gems that would directly benefit from a stronger U.S. economy for those feeling the fear of missing out.

I’d recommended investors take a contrarian position by buying defensive dividend stocks, which were selling off in part because of the irrational exuberance of the average investor. Everybody was overly bullish, but all of a sudden, everyone’s running scared, as the fear gauge surges to highs not seen since the last U.S. election day.

Is it too late to buy such defensive dividend stocks?

Not yet! They’re still cheap right now, and the recent global market plunge should serve as a wake-up call if you’ve got little or no exposure to defensive stocks that have the ability to hold their own in the event of a violent correction.

I’m going to recommend **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Canadian Utilities Limited** (TSX:CU) for their +4% yields and their abilities to weather storms when the markets move into bear mode. Not only will these stocks not fall as drastically as other stocks during a violent correction, but the rock-solid dividends will dampen the excessive volatility during times of turmoil.

In addition to these two cheap utilities, I’d also urge investors consider **Fairfax Financial Holdings Ltd.** (TSX:FFH), a typical safeguard from economic downturns. Although CEO Prem Watsa offloaded a large chunk of his hedges and short positions, the company still has a significant amount of downside protection should the markets continue to head deeper into the red.

The 2% dividend yield may not seem like much, especially since it’s been a while since Fairfax hiked its dividend, but during really tough times, Watsa may decide to hike the dividend, while the average stock slashes theirs, due to his "preservation-of-capital" approach to investing.

Bottom line

If the recent 4% drop in the TSX phased you this past week, you should strongly consider bolstering your portfolio with defensive positions. This recent correction is likely healthy for the markets; however, it should come as a wake-up call to investors who have neglected the defensive portion of their portfolios.

Stay hungry. Stay Foolish.

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1. Dividend Stocks
2. Investing

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3. TSX:FFH (Fairfax Financial Holdings Limited)
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