In Defence of Defensive Dividend Stocks

Description

The markets have really been acting pretty strange of late.

Vanguard founder Jack Bogle went as far as saying that he's never seen a market that's been this volatile throughout his 66-year investment career. That's remarkable, but not a sign of an imminent market crash.

With two nasty corrections to kick off 2018, one would think that the demand for volatility-padding defensive dividend stocks would have gone up, but this clearly hasn't been the case (especially in the case of consumer packaged-goods stocks), as investors continue to bet big on cyclical high flyers.

Prem Watsa, also known as the Canadian Warren Buffett, is very optimistic on the state of the U.S. economy, so much so that he turned bullish after many years as a doomsday investor with his hedges and short positions that were poised to profit from a market pullback that never happened.

Nobody really knows where the markets are heading next, not even the smartest people on Bay or Wall Street. You could dig deeper into the forward-looking market forecasts of "experts"; however, most forecasts will likely end up contrasting one another and just serve to confuse you, potentially driving you down an incorrect path.

I hate to sound glib here, but don't bother timing the market.

Recessions often catch the smartest of forecasters off guard, so there's really no point wasting your time with shallow year-ahead market projections that have become a hot topic with televised financial shows on networks like *BNN Bloomberg.*

A smarter move on the part of an investor would be to play both sides of the coin: the bull and bear side. This way, you'll be able to continue to profit off the nine-year-old bull market without standing to lose your shirt once the party comes to a sudden (and likely unexpected) end.

If you own high-flying cyclical names, stick with them, but please don't neglect defensive names that have the ability to hold their own in the event of a crisis.

Many defensive dividend stocks have been incredibly out of favour of late. Their yields are less attractive and have been passed up for the stocks of firms that are better equipped to deal with a rising-rate environment.

Rising interest rate fears and the fear of missing out (FOMO) mentality have caused many investors to rotate their cash out of stable, boring plays and into more cyclical names to better profit from the bull's next leg up.

Robust defensive dividend stocks, including **Hydro One Ltd.** (TSX:H), with highly predictable regulated cash flow streams, are incredibly "unsexy," especially when you've got a stock like **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) that continues to make investors rich over the near term.

As such, I believe prudent investors now have the opportunity to pick up shares of their favourite defensive dividend stocks at a discount to go with a yield that's likely the highest it's been in recent memory. While investing in such beaten-up defensive stocks may dampen your portfolio's overall returns as the bull continues to roar, you'll be glad you've formed a defensive foundation for yourself once market sentiment takes a 360-degree turn.

Think of defensive dividend stocks as an insurance policy that can dampen your portfolio's downside should a bear market suddenly command control of global markets. You've got a fat yield that you can collect, and many of today's overly beaten-up names have an above-average margin of safety versus almost any other cyclical stock out there.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:H (Hydro One Limited)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/07/22
Date Created
2018/06/12
Author
joefrenette