Why Fortis Inc (TSX:FTS) Rallied While the TSX Index Fell

Description

October is not known for being a great trading month. Infamous market catastrophes, like the panic of 1907, the Great Crash of 1929, and 1987's Black Monday all happened in this most ominous of months. Indeed, the preponderance of market crashes taking place in October arguably inspire more fear than all the ghoulish spectacles of Halloween.

This year, the "October effect theory" got more corroborating evidence, as markets tanked around the world. The Dow lost almost 10% of its value, erasing its gains for the year. The TSX also tanked, led by cannabis stocks, some of which fell as much as 30%.

Despite all this market carnage, there was one stock that was sitting pretty when trading closed on Friday, October 26. A stock that receives little attention from hype-hungry market commentators, but is nevertheless one of the best "buy-and-hold" dividend plays on the TSX Index.

That stock is **Fortis** (TSX:FTS)(NYSE:FTS). We're going to learn why it survived October better than most of its peers on the TSX index.

Utilities stocks: reliable gains in bear markets

The most obvious reason that Fortis has fared well in October is because of its sector. Utilities stocks in general tend to do well in corrections: according to *USA Today*, half of the stocks that beat the market during corrections are utility stocks. So, there's a definite tendency of utilities to outperform in down markets. Nova Scotia-based **Emera** did well this past month for similar reasons.

However, not *all* utility stocks did well this October. Alberta-based **TransAlta**, for example, is down to $6.99 from the $7.17 it started the month at. So why, apart from being in a recession-friendly sector, is Fortis doing well?

A generous dividend

One reason that Fortis may be doing well its generous dividend, which currently yields about 4%. Dividend stocks are popular in down markets, because people see the dividend as a source of returns that will not be affected by market downswings. This reasoning isn't always foolproof; if a market downturn spirals into a full-fledged recession, then a company may be forced to cut its dividend. But Fortis in particular not only has a high dividend yield, but also a steady, uninterrupted history of raising its dividend. And there are reasons to believe that this dividend-raising streak will continue, as we'll see below.

Steady earnings growth

Fortis has a very good long-term history of earnings growth. The company isn't without its earnings downturns — net income was down 6% in the last quarter — but the long-term trend is solidly positive. Again, this comes down to the sector: utility companies provide essential services and enjoy near-monopolistic conditions in their markets. So, they can keep selling, even in down markets, and can even theoretically raise rates in recessions. In the very *worst* recessions, people may cut their electrical usage or even switch to burning wood for heat, but the necessity of electricity means that utility companies won't be hit *too* hard even in the worst economies. This bodes well for Fortis should this month's down market spiral into something worse.

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