3 Top Dividend Stocks to Buy When a Recession Is Looming

Description

The risks to global economic growth are growing. Canada is teetering on the brink of a recession, while the latest economic data from the U.S. show a sign of a slowdown. In this negative economic backdrop, it makes sense for investors to find safety in solid dividend stocks.

Here are three top dividend stocks you can consider buying in this uncertain environment.

Rogers Communications

Keeping a telecom stock in your recession-proof portfolio is highly recommended. Telecom operators are a great example of “cash cow” businesses, which produce recurring cash flows for their investors and usually avoid big swings in their share prices when market volatility is high.

In Canada, I particularly like **Rogers Communications** (TSX:RCI.B)(NYSE:RCI). Rogers has proved to be a much better investment when compared to other top telecom players. The company’s strategy to expand aggressively in the wireless space brought in more cash flows and propelled its share price higher.

During the past two years, Rogers has focused on improving the quality of its balance sheet and has avoided hiking dividends since January 2016. But its safe payout ratio and better balance sheet quality make it a better dividend stock to buy. With the annual dividend yield of around 3% and quarterly dividend of $0.50 a share, Rogers is one of the safest bets at a time when the risks of economic downturn are real and rising.

Dollarama

Canada’s largest dollar store **Dollarama** (TSX:DOL) is another dividend stock I would recommend to stash in your portfolio to counter the effects of a prolonged economic downturn.

Discount retailers don't lose their shine during the bad times, as consumers look for bargains and increase trips to these stores. After producing stellar earnings for several years since its IPO in 2009, this retailer is under pressure as cost pressures crimp earnings.

But after a 30% decline during the past one year, I find this retailer a good bargain for long-term investors. Dollarama pays $0.04 a share quarterly dividend, which doesn't look attractive, but its shares have a huge upside potential once the economy goes into a deflationary mode.

Trading at $34.91 at writing, this top growth stock offers a good value and entry point for long-term investors.

TD Bank

Banks usually underperform in economic downturns because their growth is tied to the overall financial health of consumers and businesses. But I find **TD Bank** (TSX:TD)(NYSE:TD) a much safer bet due to its wide economic moat and its revenue diversification.

The lender has large presence in the U.S., which makes TD Bank a great diversification play. It generates 27% of its net income from the U.S. retail operations. The bank also has a 42% ownership stake in **TD Ameritrade** with a fast-expanding credit card portfolio.

Following its aggressive growth in the U.S. during the past decade, TD now runs more branches south of the border than it does in Canada.

When it comes to dividends, TD distributes between 40% and 50% of its income in dividends. After an 11% increase in its payout last year, income investors in TD stock now earn a $0.74-a-share quarterly dividend, which translates into a 3.95% yield on yearly basis.

The bank is forecast to grow its dividend payout between 7% and 10% each year going forward — impressive growth to bank on if the current market downturn persists.

Bottom line

In an environment when the economic uncertainty is increasing, these three dividend stocks will add safety and diversification to your portfolio. You can wait for better entry points if this market downturn persists.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)

3. TSX:DOL (Dollarama Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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