This Dividend Stock Has Your Back in a Recession

Description

The yield curve has finally inverted, but you probably already knew it was inevitable, as tonnes of headlines touched on the topic ad nauseam over the past year. And although the recession predictor is scary accurate, investors should know that it doesn't mean the markets are going to be in a violent tailspin from here.

When the yield curve inverted in 1988, the stock market posted a 29% gain between the time the yield curve inverted and the beginning of a mild recession that preceded one of the biggest bull runs in recent memory. If you sold when the yield curve inverted, you felt like a fool (that's a lower-case *f*), so if you've thought about ditching all your stocks for risk-free instruments, you should strongly reconsider.

That's not to say you shouldn't be prepared for a potentially nasty 55% implosion like the one we had in 2008, though. Nobody knows if stocks are going to halve or if it's going to be another mild pullback like the one we had late last year.

With the effects of quantitative easing to account for, nobody even knows if the yield curve still has any merit! So, instead of basing your investment strategy on a single economic indicator, you'd be better served to adopt a more balanced portfolio so you can deal with whatever Mr. Market throws at you.

Canadian Utilities (TSX:CU) is a top defensive pick for investors who are worried about a recession but also don't want to miss out on huge gains by delving into fixed-income securities. The utilities tend to outperform in times of recession, and pending another financial disaster like the one we had in 2007-08, Canadian Utilities could post positive returns alongside high single-digit dividend growth.

Earlier in March, I'd highlighted Canadian Utilities as a defensive dividend stock that millennials should buy instead of bonds if they're looking to mitigate their portfolio risk. In the original publication, the stock yielded nearly 5%, but after a 10% single-month pop, the yield has come down slightly to 4.63%, which is still bountiful for those looking to batten down the hatches over the next three years as that dreaded recession looms.

"Don't wait for the next significant downturn to get started investing. You could be waiting for a very long time and therefore miss out on years' worth of gains that you'll never get back." I said in a prior piece.

I continue to shun market timing, even with the inverted yield curve and other widely publicized indicators that only cause one to follow the herd at the worst times. While another recession is inevitable, investors should seek shelter in a highly regulated, lowly correlated dividend payers like Canadian Utilities, rather than fleeing to cash or bonds where the opportunity costs are much greater.

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