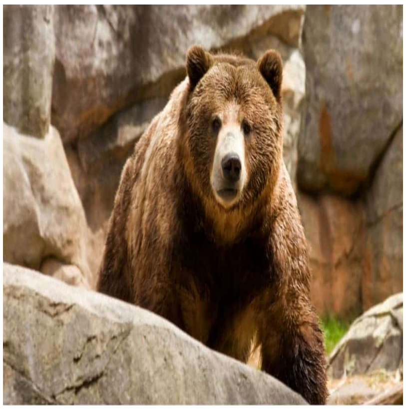

Recession Prep 101: A Defensive Dividend Stock to Buy Before the Bear Market Strikes

Description

A lot of talking heads on TV have been using the "r" word of late.

The high risk of recession has many investors worried, but for Fools like us, we'd rather not try and time a perfect exit from the markets, because it's impossible. If you make a rash decision such as selling all your stocks on bearish noise you heard from some so-called pundit, the next thing you know, a U.S.-China trade deal could be struck, and markets could rocket much higher before the bear rears its ugly head. And I guarantee you won't be hearing back from that pundit who scared you out of your positions.

If you are acknowledging the high recession risk, it makes sense to re-balance your portfolio if you haven't already done so. That means equal or underweighting your cyclical positions and raising the allocation of your defensive dividend plays.

By adjusting your portfolio's allocation, you're not timing the market. You're being more prudent by playing both sides of the coin (the bull and bear side) given we're in the late stages of a market cycle, and certain events could cause considerable downside. That's nothing new though, as there are always unforeseen events that could cause the markets to flop or soar when you least expect it.

You've probably heard we're in the late stages of this bull market, and while true, there's nothing stopping the bull from roaring another three, five, 10, or even 20 years. Thus, you'll need to ensure you're adequately compensated through dividends to stay invested now and over time.

Consider **Emera** (TSX:EMA), one of the hottest Canadian dividend stocks over the past year. The stock is now up over 50% from its October bottom, and with no signs of slowed momentum, the name still looks ripe for picking for those who find their portfolios are lacking in defensive names.

As one of the steady free-cash-flow-generating companies that can support mid-single-digit dividend hikes indefinitely, Emera is a perfect bond proxy that all types of investors can feel comfortable owning through thick and thin.

Why invest in fixed income (bonds) when you can have a growing perpetuity?

The most intriguing part of the Emera story is the fact that management has been focusing on beefing up its regulated operations to enhance the predictability and stability of its future cash flow profile. As a utility, Emera is already a Steady Eddie that income investors rely upon, so taking it a step further with the focus on regulated operations makes the name that much more attractive in an era where bonds no longer offer a satisfactory return on investment.

After a 50% trough-to-peak run, it may seem difficult to justify an investment in a dull (and potentially overvalued) utility stock. The stock trades at a slight premium because of the latest growth-to-value rotation, but shares aren't exactly what you call expensive, especially given the calibre of business you're getting.

At the time of writing, Emera shares trade at 12.5 times EV/EBITDA and 8.4 times cash flow, just a tad higher than that of its five-year historical average multiples of 11.95 and 7.9, respectively. You're not getting a screaming bargain with Emera, but what you are getting is a stable 4.1% dividend yield and the promise of 5-6% in annualized dividend hikes.

In an environment where it's tough to score anything more than a nominal return with fixed-income securities, Emera begins to sound like the best deal in town in spite of its slight premium.

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