Add These Defensive Stocks to Protect Against a Market Crash

Description

Year to date, the benchmark S&P/TSX Composite Index is up 17.19%. The index is on pace for its best year since the 30.7% return it achieved in 2009 after the markets crashed in 2008. It seems like after every dip, the market has bounced back even stronger.

After dipping in August, the index is up 4.3% this past month and is touching all-time highs on an almost daily basis. Give the recent performance, there is a general sense that the TSX Index may be due for a pullback. In fact, bears have been calling for a recession for years.

We are in the midst of an unprecedented bull run. When bears are finally proven to be right, and they will be, there could be considerable panic. Why? Many investors are new to the market and have never experienced a bear cycle. Emotions are the biggest reasons why retail investors underperform. They tend to buy and sell based on market sentiment. When things are good, they buy in. When markets start to crash, they sell out. Seasoned investors know this is counter-intuitive and can lead to big losses.

A bear market is inevitable, that much is known. What isn’t known, however, is when it will arrive. It is for this reason that investors should ensure they are properly diversified and increase their exposure to those stocks that are considered defensive in nature. Defensive stocks will protect your portfolio against increased volatility in the stock market. Although no company is immune to the bear, they will hold up better than most.

Utilities is one of the best defensive sectors in the markets. Utility companies provide reliable and stable earnings regardless of market conditions. Likewise, they are also known to pay juicy dividends. Finally, a struggling economy is usually accompanied by lower interest rates. The lower the rates, the better for utilities, as they have high capital expenditures and the cost to borrow funds is lower. My preference is to stick with industry leaders.

Canadian Utilities

Canadian Dividend Aristocrats are companies that have raised dividends for at least five consecutive years. At the top of the list? **Canadian Utilities** (TSX:CU) and its 48-year dividend-growth streak. It may not be Canada's biggest utility, but it has certainly proven to be one of the top income stocks on the S&P/TSX Composite Index. It will be the first TSX-listed company to achieve Dividend King status — a feat that is 50 years in the making.

Not only does it have the longest streak, it also has one of the best dividend-growth rates in the industry. Over the past three, five and 10-year time frames, it has averaged approximately 10% annual dividend growth. The dividend is underpinned by stable cash flows, of which 86% are tied to regulated earnings and 14% by long-term contracted earnings.

Year to date, the company's stock price is up 24%, and it has $3.6 billion in growth projects on the books through 2021.

Fortis

Another reliable option for investors is Canada's largest utility company — **Fortis** (TSX:FTS)(NYSE:FTS). Fortis is also no dividend slouch, as it owns the second-longest dividend-growth streak in Canada at 46 years. In fact, Fortis and Canadian Utilities are the only TSX-listed companies with streaks longer than 30 years. No company comes close to their dividend consistency and reliability.

Fortis stands out thanks to its attractive growth profile. The company has aggressively diversified south of the border through major acquisitions. As of its most recent results, 66% of the company's earnings comes from the U.S. It is was has enabled to company to dwarf Canadian Utilities's returns. Over the past five years, Fortis stock has averaged 12% annual gains, while Canadian Utilities is in the negative (-0.11%).

The company has $18.3 billion worth of projects, which is expected to drive annual earnings growth of 6%. This is also expected to underpin 6% dividend growth through 2024 as per the company's latest guidance.

CATEGORY

1. Dividend Stocks
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