TFSA Income Investors: 2 Defensive Dividend Stocks to Own During a Market Downturn

Description

Canadian retirees and other income investors rely on steady streams of dividends from the stocks they own inside their self-directed TFSA portfolios.

The equity markets have enjoyed a bull run that's starting to look a bit long in the tooth, especially when compared to historical data. The good times could certainly continue for months or even years, but it makes sense to start thinking about adding some defensive stocks to the fund.

The World Bank and the IMF both issued reports recently that suggest global growth is slowing. The longer the trade war goes on between China and the United States, the higher the risk that the rest of the planet will slide in to recession.

With stocks trading at lofty valuations, the next correction could be significant.

What should investors do?

The **TSX Index** has a number of stocks that tend hold up well when the broader market takes a hit.

Here are two that might be interesting picks right now for an income-focused TFSA.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a North American utility with $50 billion in assets located in Canada, the United States, and the Caribbean.

The stock has grown significantly from its origins as a small power provider in Eastern Canada to become one of the top 15 companies in the industry.

Fortis has taken advantage of acquisition opportunities to expand its reach, including two major deals in the United States in the past five years. The purchases balanced out the revenue base, and a majority of the income now comes from the American businesses, providing TFSA investors with a great way to get access to the U.S. through a Canadian company.

Homes and businesses need electricity and natural gas to power the lights and keep the building warm regardless of the state of the economy. Nearly all of the revenue is generated by regulated businesses, which means the cash flow used to pay dividends should be predictable and reliable.

Fortis also grows through investment in organic projects. The company is spending $18.3 billion over the next five years on initiatives that should boost the rate base enough to support average annual dividend hikes of 6%. Fortis has increased the payout for 46 straight years, so the guidance should be solid.

The current payout provides a yield of 3.4%.

Telus

Telus (TSX:T) (NYSE:TU) is one of Canada's top communication companies with world-class wireless and wireline network infrastructure providing mobile, internet, and TV services across the country.

Telus continues to add new customers at a steady rate and does a good job of keeping them after they subscribe. In fact, Telus regularly reports the lowest post-paid mobile churn rate in the industry.

Telus just announced plans to acquire security firm ADT Canada for about $700 million. The deal adds 500,000 new security clients and gives Telus another suite of products to bundle with its existing offerings.

Homeowners and businesses are taking advantage of new technology to automate, monitor, and protect their properties and telecom service providers are a key part of the equation.

Telus intends to raise its dividend by 8-10% per year over the medium term and has a long history of dividend growth. The existing distribution offers a 4.7% yield.

Global economic chaos should have a limited impact on the business. Internet and mobile services are essential and broadband demand continues to increase every year.

The bottom line

Fortis and Telus are strong businesses that should continue to do well through an economic downturn. Both stocks pay attractive dividends that continue to grow and deserve to be on your radar as defensive picks for an income portfolio.

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