1 Stock I’m Considering Buying for a Bear Market

Description

The “bear market is coming” chorus is growing louder and louder every day.

Between economists calling a recession by 2021 and money managers seeing a crash on the horizon, there’s a rapidly growing consensus that we’re headed for a downturn. And there’s plenty of metrics to back that claim up.

A few weeks ago, **Canadian National Railway** CFO Ghislain Houle said that the economy had been softening. Railway businesses are strongly tied to overall economic growth, so Houle’s words on the topic are worth listening to. Other recent recession indicators include inverted yield curves and a downturn in U.S. manufacturing.

Personally, I’m not throwing my hat into the ring to predict a recession at any specific date. However, the consensus that we’re nearing the end of an expansion is broad enough that I’m looking into re-balancing my portfolio. The following is one stock I’m strongly considering buying.

Algonquin Power & Utilities Corp

Algonquin Power & Utilities Corp (TSX:AQN)(NYSE:AQN) is a utility stock with diversified investments in green energy, power, and water treatment. The company’s Liberty Power subsidiary provides wind, solar, and hydro power to customers throughout the U.S. Its Liberty Utilities subsidiary is involved in water distribution, waste water treatment, electricity, and natural gas.

This highly diversified business gives Algonquin exposure to a number of highly regulated industries.

The company has been growing considerably over the years. Over the last four fiscal years, Algonquin grew its earnings from $84 million to $184 million, more than doubling its net income. Adjusted net income in the most recent year was even higher, at $312 million. The growth was driven in no small part by a successful rate increase, which in 2018 increased revenue by $24.5 million.

Why it's a strong pick for a bear market

Algonquin, like most utilities, is a good defensive play for a bear market; however, it's also a dividend growth stock that's good in any market.

Utilities tend to be strong performers in bear markets because their revenue streams are very stable. Heat and light are among the last things people will ever cut from their budgets, so utilities tend to keep up their revenue during recessions. Algonquin benefits from this fact as a company that provides electricity and water to customers throughout the U.S.

However, the fact that Algonquin is a utility isn't the only reason that it's a good pick. It has historically out-performed other utilities, having beaten the TSX utilities sub-index and even the likes of **Fortis** (another utility with an ultra-steady revenue stream) over the past five years. Again, this is thanks to the company's rapid earnings growth. Net income has more than doubled in the past four years and adjusted earnings have grown even more than that.

Possible risk factors

While Algonquin is a pretty solid pick for a recession, it does have some risk factors that are worth paying attention to. First, the company has a fair bit of debt (although its debt-to-equity ratio is lower than that of Fortis). Second, it missed on earnings in three out of the last four quarters. Third, only 75% of the business is regulated, so it's a little less stable than other utilities. Still, overall a great business with strong growth potential.

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