Investor Alert: A Top Defensive Dividend Stock for 2020

Description

The Canadian and U.S. stock markets continue to trade near multi-year highs.

While additional upside could be on the way before the decade-long rally runs out of steam, history suggests investors should start to consider building some defence into their portfolios.

In fact, it might be a good idea to prepare for a potential downturn in 2020.

Why?

The trade dispute between the United States and China has disrupted supply chains and forced companies around the world to put investment decisions on hold as they wait to see how the situation will eventually pan out. Punitive tariffs have wreaked havoc on manufacturers and retailers of finished goods, and economic reports point to a weakening global economy.

China just revealed its worst growth rate in decades, and the IMF is expecting global 2019 growth to be the slowest since the last financial crisis.

This doesn’t mean another major crash is imminent, but dark clouds might be on the horizon.

Owning great companies in a self-directed portfolio is still a solid strategy, and adding to the positions on a dip tends to pay off in the long run.

That said, it might be a good time to consider trimming the exposure to some of the more volatile companies that have enjoyed stellar rallies but are not profitable. The funds can be shifted to defensive stocks to reduce risk in your fund.

Let’s take a look at one stock that might be an interesting dividend pick to hedge your portfolio against a major downturn.

Telus

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

The company is also taking advantage of its technological advantage to drive new revenue streams that could become a significant part of the overall mix in the coming years. Telus Health, for example, is Canada's leading supplier of digital solutions for doctors, insurance companies, and hospitals. The health sector is ripe for disruption, and the growth opportunity in the sector is substantial.

Telus is also moving into the smart home and security segment in a big way. The company just announced a deal to acquire ADT Canada for about $700 million. The purchase adds 500,000 customers across the country and will immediately give Telus a leading home security brand to sell to existing subscribers of its other services. In the news release, Telus said its existing security client base was expected to increase by about 12,000 in Q3 to 100,000 clients.

Telus has embraced the potential of the Internet of Things (IoT) and recently launched its IoT Shop, which is a portal for business owners who are innovating in the IoT space to easily order flexible and affordable IoT connectivity. This isn't going to have much of an impact on revenue in the near term, but it shows that Telus is looking well ahead at future opportunities and gives it an early peek at new innovations.

The company continues to add clients at a steady rate and is targeting average annual dividend growth of 8-10% per year over the medium term.

The current payout provides a yield of 4.7%.

Risk

The telecom companies were easy targets in the recent election campaigns, and some investors might be concerned that the government could try to force lower mobile pricing. That's certainly a possibility, but the initial market reaction in the wake of the election suggests investors are not overly concerned.

Should you buy Telus?

Telus is relatively immune to the potential global economic chaos. It operates in a single country, and its mobile and internet services are considered essential for the daily operation of most people's lives.

The stock tends to hold up well when the broader market takes a hit, and the generous dividend pays you well to ride out any potential downturn.

If you are searching for a defensive stock to add to your portfolio, Telus deserves to be on your radar.

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