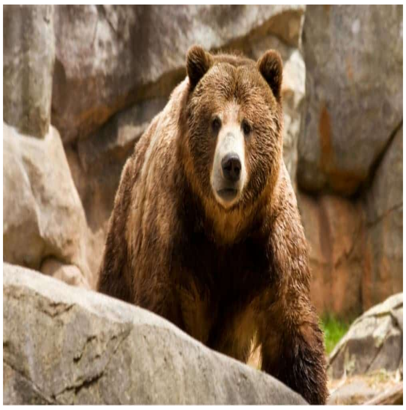

These Stocks Are Better Than Cash During a Bear Market

Description

Bear markets can slash your portfolio's value in half in a matter of weeks. If you don't remember how painful the last recession was, pull up some price charts on the stocks you currently own.

The price movements likely weren't pretty, which is why many investors move to cash during times of volatility. After all, earning a 0% return on your cash is better than losing 50% by owning stocks.

Cash isn't the only option during a market downturn, however. In fact, some stocks could thrive during a bear market, as these stocks have a secret weapon at their disposal: regulation.

Thank regulation

Utilities, the companies that deliver power to homes and businesses, can either be regulated or unregulated. Unregulated utilities compete in an open market, often buying energy at volatile prices and selling it to consumers at variable prices.

When times are good, profits can expand quickly. But if energy prices move the wrong way or competitors attempt a pricing war, conditions can turn in an instant.

Over the last few decades, several unregulated utilities have gone out of business by ending up on the wrong side of the market.

Regulated utilities, meanwhile, are much more stable, as governments often give them guarantees on how large their rate base will be and how much they can charge.

It doesn't matter where energy prices head or what the competition does (if any), regulated utilities enjoy the same level of profits year after year.

Pricing upside is limited considering these businesses can't charge whatever they like, but the trade-off is usually worth the earnings visibility.

Which **TSX** utility stocks have a large exposure to regulated markets? **Canadian Utilities Limited** (TSX:CU), **Emera Inc** and **Algonquin Power & Utilities Corp** are obvious choices.

All of these companies are expanding their regulated utility businesses, and their stock prices reflect these efforts. Throughout the 2008 financial crisis, for example, shareholders of all three companies actually *profited*.

Dividends when you need them

The only thing better than cash during the 2008 downturn was owning these stocks, as they not only survived the last bear market unscathed, but also delivered income throughout the crisis. Having additional capital to invest at market lows is a rare advantage.

Today, Emera and Algonquin deliver a 4% dividend, while Canadian Utilities stock offers a 4.4% dividend. These are some of the most reliable payouts on the market, and their strength was validated during the previous recession.

For example, Canadian Utilities was able to increase its dividend during the worst months of the recession. This shouldn't have been surprising given that the company has boosted its payout annually for more than 30 years, no matter what the prevailing economic environment. It's difficult to find a more impressive dividend history.

If you're concerned about another bear market, moving to cash isn't a bad strategy, but owning stocks like these can give you a similar sense of stability as well as fresh capital to invest at bargain prices.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

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1. Business Insider
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