We’re Overdue for Another 20% Market Correction: Here’s How to Protect Yourself

Description

The Grinch stole the Santa Claus rally last year but left generous gifts under the tree for Foolish contrarian investors, as the **S&P 500** plunged nearly 20% from peak to trough. As we head into another holiday season, investors must be prepared for another such scenario where the markets could correct sharply should a big-picture event go wrong.

U.S.-China worries have faded into the background, for now, thanks to the announcement of the yet-to-be-inked “phase one” trade deal. And while it seems like the next few phases will be rally fuel that this market so desperately needs, one must not rule out a scenario where tensions arise again.

We’re not out of the woods yet, and all it will take is another round of fresh new tariffs before “phase one” will feel like “phase none” and the markets correct in accordance.

So, as most other investors look to a long-awaited breakout, with shares of defensive darlings like **Emera** (TSX:EMA) taking a breather after a smooth ride up for the first three quarters of the year, it may be time to be a buyer on such names on the dip.

At the time of writing, Emera has pulled back 7% from its high, and as the negative momentum picks up, you may have a chance to add some stability to your portfolio at a discount to intrinsic value.

Emera’s management team has been aggressively looking to move into regulated operations to become more like **Fortis**, with a higher quality of earnings and a steadier cash flow stream that’s less subject to surprises.

In recent years, the company has made divestitures to improve upon its balance sheet and reinvent itself as a name that can be relied upon in dire economic conditions. In an era where bond yields are at rock bottom levels, highly-regulated utilities with high upfront yields and the means to guarantee annual dividend raises under any economic environment are in high demand.

Bonds are out. Bond proxies are in. And as Emera continues to gravitate towards ambitious low-risk growth projects (like in the U.S.), I do see multiple expansion being warranted over the next year.

At the time of writing, Emera stock trades at two times sales, and 12.2 times EV/EBITDA, both of which are in-line with their respective five-year historical averages.

While Emera still has a ways to go before it's of the calibre of Fortis, it's on the right track, and as shares continue to pullback, I'd look to initiate a sizeable position before those recession fears return.

Foolish takeaway

A phase-one trade deal between the U.S. and China marks a step forward, but the next thing you know, they could be taking two steps backward, so don't dump your defensive dividend stocks as many are doing right now.

I'm a big fan of Emera's trajectory and should the stock fall to $48; I'd recommend backing up the truck as others become more bullish on the broader markets over a potential market pump fake.

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Date
2025/08/25
Date Created
2019/10/30
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