A Canadian Stock to Buy if You’re Worried About a Recession

Description

If you’re worried that a recession is something that our economy can’t avoid in 2020, you should seriously consider buying stocks that are recession-proof or perform better in any economic downturn.

As we enter 2020, there are many signs that show Canada and other parts of the world are facing many uncertainties. The U.S. and China — the world’s two largest economies — are still embroiled in a trade war, which, if not resolved, could push our economies into a recession.

For Canada, that outcome could be devastating, as its main exports, including energy and minerals, could suffer. With the pipeline capacity issues remaining unresolved and oil prices remaining weak, we could hit the rough waters sooner than our neighbor.

With these economic uncertainties in mind, it’s important for long-term investors to buy dividend stocks, which have the power to withstand the turbulent times better than other companies.

One of the biggest challenges for retail investors is how to identify such stocks. One way to achieve that goal is to look for companies that pay consistent dividends and grow them over time. In other words, look for solid dividend-growth stocks, as they are your best defence when asset prices fall.

Some advisors recommend putting the majority of your assets in cash, some of them in safe-haven assets, such as government bonds and gold, to get your portfolio recession-proof. That approach certainly suits very conservative investors who don’t want to avoid risk.

A recession-proof stock

However, you can still make decent returns and at the same time be conservative if you add some high-quality, recession-proof stocks in your portfolio.

Research has shown that the companies that provide basic services, such power and gas utilities, telecom operators, healthcare providers, and real estate investment trusts (REITs), outperform in economic downturns and recessions.

These companies continue to generate cash flows and distribute most of those inflows in dividends. Earning consistent dividends means you are still getting income while waiting for the markets to recover.

If you're planning to buy dividend stocks right now, then North America's largest pipeline operator **Enbridge** (TSX:ENB)(NYSE:ENB) is one of your best bets. The company is in a good position to take advantage of North America's strong energy economy.

The company operates across North America, fueling the economy and fulfilling consumers' energy needs. Enbridge moves nearly two-thirds of Canada's crude oil exports to the U.S., transports about 20% of the natural gas consumed in the U.S., and operates North America's third-largest natural gas utility by consumer count. Another reason to buy a dividend stock like Enbridge is that when interest rates fall, these stocks become more attractive.

Enbridge, which currently yields about 6% a year, is offering quite an attractive risk/reward equation. Its current return is still much higher than what you can earn on safer assets, such as government bonds. And if the Bank of Canada starts cutting rates, then this yield will become more lucrative for those who own this name.

Bottom line

Enbridge is a good defensive stock to hold on to when the economic headwinds are gathering pace. The company pays a $0.73-a-share quarterly dividend. The payout has been expected to rise 10% per year.

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