The Best Canadian Stocks to Buy During a Correction

Description

After reading the news flow during the past two days, it seems the markets are again becoming vulnerable to another sharp correction in the last trading month of the year.

First, a bullish case built around the U.S. and China trade deal is faltering. President Donald Trump told reporters in London that he doesn't have any deadline in his mind to sign a trade agreement with China, and he won't mind delaying an agreement between the world's biggest economies until after the 2020 elections.

This development is actually enough to deflate the bubble that's built in the past two months, taking the Canadian and the U.S. stocks to a new highs, as investors moved their funds back to risky assets on hopes that the negative impact of a global trade war could be avoided.

In another negative jolt, the manufacturing data from the U.S. continues to show no sign of recovery. A gauge of U.S. factory activity showed Monday that industrial activity has weakened further last month. The Institute for Supply Management's manufacturing index decreased to 48.1 in November from 48.3 in October, marking the fourth straight sub-50 reading. Readings below 50 indicate a contraction in activity.

With these headwinds gathering pace, and the markets not seeming to have any other catalysts to take this rally further, the risks are increasing for a deep correction that could send share values tumbling.

According to a note by economists at **Morgan Stanley** early this year, a global economic contraction is likely within three quarters if the U.S. puts 25% tariffs on all Chinese imports for four to six months and if the Asian country hits back.

Defensive stocks to buy

While it's almost impossible to completely avoid the impact of a recession or a deep correction on your portfolio, it is possible to minimize it by buying stocks that are defensive in nature. In this category, companies that command a durable competitive advantage, growing free cash flows, and sticky services are the ones that fit the bill.

You can find these stocks in those areas of the markets that rarely get press. For example, telecom utilities, power and gas providers, insurance companies, and large grocery chains have less to lose when the economy slips into a full-blown recession.

While you diversify your portfolio, you should certainly add one or two quality stocks from these sectors. Let's take the example of Canada's largest telecom operator, **BCE** (TSX:BCE)(NYSE:BCE) and an electric and gas utility **Fortis** (TSX:FTS)(NYSE:FTS). These companies aren't too volatile when markets are going through an uncertain period.

The reason is that their services are among the last that people would consider cutting in a recession — and that stickiness provides stability to their cash flows. BCE's stock performance over the past five years tells us that it's a slow-growing investment paying steadily growing dividends while preserving your capital. Similarly, the St. John's-based Fortis has a diversified asset base, providing electricity and gas to customers in the U.S., Canada, and the Caribbean.

Between 2006 and 2019, Fortis's annual distribution increased from $0.67 to $1.80 a share — a very impressive track record of rewarding investors. The company has increased its dividend payout for 45 consecutive years — a record few companies can maintain.

Bottom line

Buying defensive stocks that pay regular dividends is a good strategy to ward off the potential impact of a correction on your portfolio, and if that weak phase turns into a long and deep meltdown, you will still be better off, as you continue to get the income stream from these stocks.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:FTS (Fortis Inc.)

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Date
2025/09/28
Date Created
2019/12/03
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