TFSA Income: 2 Top Dividend Stocks to Own in a Downturn

Description

Stock markets have had an impressive run in 2019, and while the good times could roll along right through 2020, there is mounting concern among pundits that we could see a meaningful correction in the next 12 months.

Companies, too, are preparing for the next pullback. For example, Canadian banks are cutting staff or indicating they are preparing for leaner times.

There is no shortage of threats.

An extension of the trade battle between the United States and China would put further pressure on the global economy. At the same time, central banks around the world are dropping interest rates in an attempt to prop up domestic growth. This risks leading to a race to devalue currencies. A no-deal Brexit or an escalation in conflict in the Middle East could also destabilize markets.

With all the potential disruptions it makes sense to add some defensive stocks to your TFSA portfolio. Let's take a look at two companies that might be interesting picks today.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company that gets the majority of its revenue from regulated businesses. This is important for income investors, such as retirees, who rely on steady dividends to supplement their pension payments.

Investors in the stock have received an increase in the payout every year for more than four decades. Fortis is currently spending more than $18 billion on a five-year capital program that should support ongoing annual dividend increases of at least 6%.

The company also grows through strategic acquisitions and isn't afraid to go after large deals to boost revenue and cash flow. Fortis spent US$11.3 billion to buy Michigan-based ITC Holdings and US$4.5 billion to purchase Arizona-based UNS Energy in recent years.

The stock has a low beta, meaning it tends to hold up well when the broader market goes through periods of volatility. Investors who buy Fortis today can pick up a 3.7% yield.

In the event there is a recession, people and companies still need to turn on the lights or heat their buildings. This makes the power generation, electric transmission, and natural gas distribution businesses Fortis owns relatively recession resistant.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with a mix of network and media assets that interact with most Canadians on a regular basis.

In fact, any time a person in this country sends a text, makes a call, streams a movie, listens to the radio, watches the news, checks e-mail, or buys something online, the odds are pretty good that BCE is involved somewhere in the process. The media group owns sports teams, radio stations, a TV network, specialty channels, and an advertising business. BCE also owns retail outlets across the country.

The company continues to add new TV, internet, and mobile customers at a steady rate and is investing billions of dollars on the installation of fibre-optic lines to meet rising broadband demand.

Free cash flow growth is on track to be 7-12% in 2019, so investors should see another dividend increase next year. The existing payout offers a yield of 5%.

Global economic turbulence has limited direct impact on BCE's business, and most people and companies consider internet access and mobile phones to be essential services. As a result, the revenue stream should be reliable through difficult economic times.

The bottom line

Fortis and BCE are proven buy-and-hold stocks for dividend investors and deserve to be on your radar as defensive picks for a TFSA income portfolio.

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aswalker