A Defensive Dividend Stock I'd Buy Right Now

Description

It's foolish (that's a lower-case *f*) to be ill-prepared for a recession, because, like it or not, we're inching closer to the next big one every single day. It's nearly impossible to predict when the next violent downturn will hit or how bad it's going to be. All one can do is ensure that they have a backup plan, so they're ready when the market tides finally go out.

Warren Buffett once said, "You only find out who is swimming naked when the tide goes out." For investors who don't acknowledge the risks they're taking on in their portfolios, one stands to be caught with their pants down when the stock market takes a 180-degree reversal in sentiment.

Jumping in and out of the equity markets isn't a suitable solution either because most overestimate their investing abilities, and when Mr. Market finally pulls the rug from underneath investors, they're left wondering what went wrong with their foolproof strategy of cashing out once the markets are put to the test with sudden headwinds.

You wouldn't stay on the shore if you were worried about getting caught swimming without the proper gear. So, you shouldn't do the investing equivalent of sitting on the sidelines with cash and cash equivalents, because by doing so, you could risk leaving a tonne of upside on the table!

What you should be doing is the obvious thing: swim, but with the appropriate swimwear! That means staying invested, but prudently, with defensive stocks that have the potential to buoy your portfolio or at least take on limited damage relative to other holdings in your portfolio.

Just have a look at moves made by Warren Buffett and **Berkshire Hathaway** of late. The company is sitting on a mountain of cash, and in the latest quarter ended 2019, Buffett and company made moves to further enhance Berkshire's defences with a surprising investment in big-league general retailer and grocer **Kroger**.

The yawn-worthy investment not only provided Berkshire with an opportunity to pay three quarters to get a dollar, so to speak (shares of Kroger have been on a tear lately), but it also allowed Berkshire to lower its correlation to the broader markets at a time when many would deem it to be expensive. Talk about a win-win proposition!

Buffett isn't one to time the markets, but he is all about mitigating downside risks, because he knows better than almost anyone else that the stock market doesn't always go up.

Canadian investors can mirror Buffett's recent Kroger bet with one of Canada's fine grocers, which are also currently dirt cheap and lowly correlated to moves made in the broader market. Consider **Empire Company** (TSX:EMP.A) stock, which is presently well past correction territory, with shares down 15% from September 2019 all-time highs.

Back in October, I'd urged investors to ditch the grocers, including Empire, warning investors would stand to pay a premium for the defensive characteristics of the grocers and of competitive pressures, which could further weigh on already razor-thin margins. As you may remember, operational issues took a toll on Empire between 2015 and 2016, but as the wrinkles were gradually ironed out, with its new CEO at the helm, a glorious rebound came to fruition, and it eventually overextended to the upside.

After the recent correction in Empire, I think the premium price tag I'd warned investors of initially has mostly been eliminated. In fact, shares are quite cheap given the premium defensive characteristics and how much better run the grocer has become in recent years.

At the time of writing, Empire shares trade at 13.8 times next year's expected earnings, 0.3 times sales, and 2.3 times book. These are valuations that are quite similar to Kroger, and if you're looking for a way to play defence without paying up or compromising on the returns front, Empire is the horse to bet on. The growing dividend (currently yielding 1.5%) is just the cherry on top of the sundae!

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