



2 Reliable Dividend Stocks for the Coming Bear Market

Description

The bear market may already be here. After a sharp correction, markets are headed lower again. Professional and novice investors alike are worried about how to handle heightened volatility and sudden drops.

Many investors are considering exiting the market entirely, but as we've learned throughout history, timing the market can be *extraordinarily* difficult.

Ray Dalio, who runs one of the largest hedge funds in the world, once likened market timing to playing poker with the best. In short, be careful when you think that you're the smartest person in the room.

How can you stay invested without completely timing the market? Low volatility [dividend stocks](#) are a perfect fit. These companies deliver a regular stream of income and can withstand economic shocks better than more companies.

These stocks can win

Want to stay invested without assuming a ton of downside potential? Utility stocks are the way to go.

Utilities are companies that supply critical community services like electricity, natural gas, and water. As these services are necessities of daily life, demand is barely impacted during a deep recession. Due to rising populations, utilities benefit from long-term growth tailwinds.

There are two ways that utilities make money: volumes and pricing. As mentioned, volumes (total demand) remain steady throughout economic shocks and tend to grow over time. Pricing, however, is another beast. After all, you can still be selling the same amount of services, but if customers are paying less, profits suffer.

Utilities are typically divided into two groups: regulated and unregulated. Regulated utilities, or more specifically, *rate*-regulated utilities, receive government assurances on pricing. This usually happens when the company has a complete monopoly on a market, similar to how phone or internet providers

tend to dominate a certain region due to scale.

In exchange for their monopoly status, government cap how much rate-regulated utilities can charge. However, these caps often come with pricing floors.

Therefore, if the economy falls off a cliff, both volumes *and* pricing can remain stable. Predictable cash flows allow these stocks to pay sizable dividends. Now *that's* a recipe for success.

Unregulated utilities compete on the open market. They have much more upside, but also more downside. Pricing can triple in a given year, or they can fall by half. There are many investible options in this space, but if you're looking to mitigate risk, stick with rate-regulated firms.

Two ideal options

Two of the best rate-regulated stocks on the market today are **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) and **Canadian Utilities Limited** ([TSX:CU](#)).

Around two-thirds of Algonquin's business is rate-regulated. The other third stems from its renewable portfolio, which is tied to long-term contracts that can span several decades. These two segments combine to form a bulletproof company.

The dividend only stands at 4%, but that's because Algonquin anticipates heavy growth in the years to come. Despite having a \$9.9 billion market cap, management intends to deploy \$6.7 billion in capital over the next few years, all without reducing its rate-regulated and long-term contracted cash flows.

Canadian Utilities is also valued at roughly \$10 billion but delivers a 4.8% dividend. This is one of the most reliable payouts in Canadian history, with 48 years of consecutive increases.

Roughly 86% of earnings are rate regulated, with another 14% coming from long-term contracts. It's a similar model to Algonquin, just with a smaller portion dedicated to renewables.

Neither Algonquin nor Canadian Utilities will deliver enormous returns, but that's simply not what these businesses are designed to accomplish. If you want consistent growth, rock-solid dividends, and downside protection, these picks are for you.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
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3. TSX:CU (Canadian Utilities Limited)

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Date

2025/08/25

Date Created

2020/03/13

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