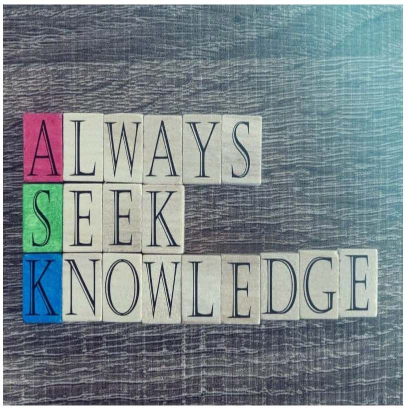

When You Shouldn't Buy Defensive TSX Stocks

Description

With all the uncertainty lately, many investors have been rushing to add defensive **TSX** stocks to their portfolios. The coronavirus pandemic is unprecedented when you think of how the global economy works today.

And so, unsurprisingly, with so many side effects and so much uncertainty, investors are stabilizing their portfolios by purchasing defensive investments.

Defensive investments, such as utilities or consumer staple businesses, are ideal because of the inelastic demand for their products and services. During recessions or periods of lower velocity of money, one of the main risks of businesses is that consumers may not have the discretionary income to buy their products.

This makes essential services such as grocery shopping, rent payments, and utility bills consumers' first priority each month. So, businesses in these industries are better investments during a recession, because they will see only a minimal drop-off in business activity.

This is why these defensive stocks can add stability to your portfolio. The more predictable and stable the cash flow is of your investments, the more stability your portfolio will have all around.

Disadvantages of defensive TSX stocks

So, if adding these stocks makes your portfolio more stable, then why not just buy all defensive investments?

It's important investors have a good balance of defensive businesses as well as high-potential TSX stocks. Defensive stocks are great during times of uncertainty, but they can underperform the market as it rallies.

Most of the companies, such as utilities and grocery stores, won't see a major increase in their business as the economy booms. So, when the market is rallying, these stocks will likely underperform higher-growth stocks.

That's why it's crucial to have a mix of both. This way, you don't underperform the market during the years that it's rallying.

When not to buy defensive TSX stocks

So, as we see from above, defensive stocks can play an important role in our portfolio. But having too much exposure to defensive investments can be a drag on performance when TSX stocks are rising.

This means you shouldn't be buying defensive TSX stocks unless your portfolio is underweight defence. If you already have a significant portion of your portfolio in these businesses, it's time to look elsewhere and work on the part of your portfolio that will provide you the superior gains.

As much as investing is about not losing your money, the main goal and the reason everyone invests money in the first place is to grow their capital.

A smart way to get exposure to both

With most TSX stocks, the answer as to whether they have defensive businesses is an easy yes or no. However, there are a select few stocks, such as **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN), that can offer investors exposure to both long-term growth and defence.

The company has both a utility business and a renewable energy generation business. The utilities are what provide investors with defence, making up roughly 66% of the business. The renewable energy generation business is what gives Algonquin its growth potential and makes up the rest of its revenue.

That power generation has roughly 2,150 megawatts of capacity at the moment. However, it also has another 400 megawatts in development. This represents nearly 20% growth in its generating capacity in the near term.

Renewable energy is one of the fastest-growing industries in the world. New technologies combined with governments around the world pushing to meet emissions targets means the renewable energy business is about to grow through a major growth spurt. This gives Algonquin superior long-term growth potential.

Furthermore, it currently pays a stable dividend that yields roughly 4.2%. Algonquin's attractive dividend, stable cash flow, and excellent growth potential are what make it one of the top defensive stocks on the TSX.

Bottom line

It's important investors know what their portfolio lacks to build the right amount of parity. Going overboard only on growth stocks or defensive stocks is a risky strategy.

So, make sure your portfolio has a good balance of each. And if you need a top defensive TSX stock that can also offer long-term growth, Algonquin should be your top choice.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

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