#1 Income Stock for Unstable Markets

Description

Amidst the market uncertainty, there are still some income stocks offering solid dividend yields that are outperforming the **S&P/TSX Composite Index**. **Algonquin Power & Utilities Corp** (TSX:AQN)(NYSE:AQN) is one such stock.

Since the start of the year, the stock price has barely budged downward by 2.9%. Meanwhile, the index has lost 12.76% of its market value.

Turn to income stocks in the bear market

Dividend stocks like Algonquin Power and Utilities will outperform the index while paying you a decent annual yield. At the current share price of $19.17, the forward dividend yield is 4.7%. As the market rebounds, you will earn a strong dividend yield and even better capital gains.

Income investing never goes out of style regardless of the market conditions. In bear markets, you know that you can count on cash payments during the market volatility. In bull markets, income stocks augment capital gains nicely, and fuel positive price changes.

When the market is sideways after a steep decline in value like today, income investors don't need to wait for the market to surge back to life. As long as you pick dependable dividend payers like Algonquin, you know your initial investment is working for you.

Stellar dividend payouts to shareholders

Algonquin stock has gone from issuing $0.21 per share annually to shareholders in 2009 to $0.62 per share in May 2020. Essentially, the company has nearly doubled its dividend payment in that time frame.

Growing dividends typically accompany growing share price as long as the company can afford the payments while maintaining a reasonable amount of growth. Algonquin's payout ratio is 76.22%. The payout ratio is the part of earnings stocks pays to shareholders in dividend payments.

Granted, Algonquin retains less than one-quarter of its net income for reinvestment into future growth. Nevertheless, investors don't normally view utility companies as high growth opportunities. Utility providers like Algonquin can therefore get away with relatively high payout ratios.

Analyst downgrades weigh on the stock

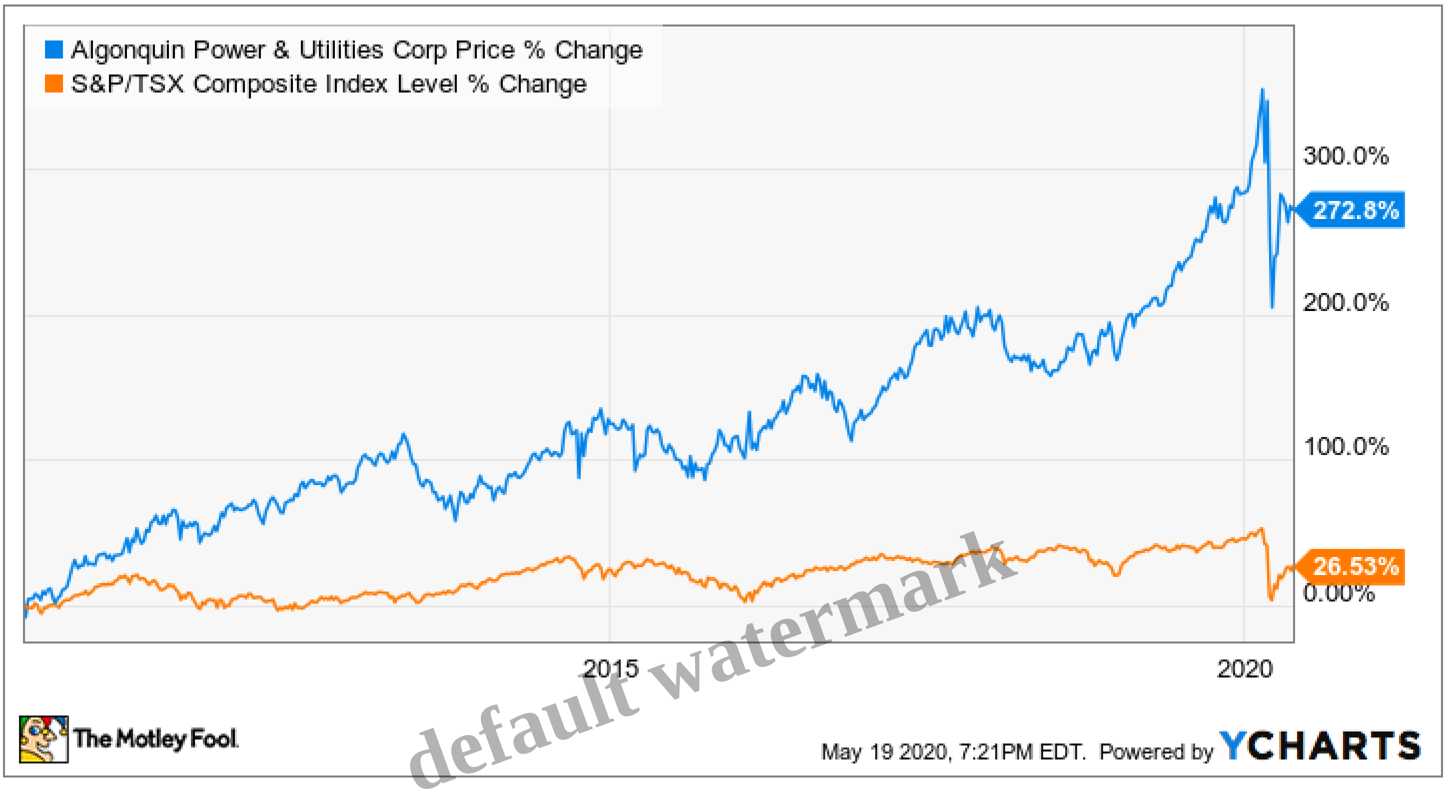
Algonquin Power and Utilities may be a great income stock, but retirement portfolios containing this stock aren't risk-free. Throughout May 2020, analysts have been downgrading the stock and trimming price targets.

On May 18, Zach's Investment Research downgraded the stock to hold. That same day, Morgan Stanley lowered its price target to $15.50 per share. Further, National Bank Financial Research Analysts lowered Q2 2020 EPS estimates to $0.11 per share.

Analyst downgrades and lowered price targets might not reflect increasingly bearish sentiments. These downgrades and price targets are near future estimates. As a long-term investor, my perception of a stock's performance ranges beyond a one-year price target.

Will the 10-year index outperformance end?

The Algonquin Power and Utilities stock has outperformed the S&P/TSX Composite Index over the past 10 years. The price percent change in Algonquin Power over the past 10 years is only 272.8%. By comparison, the index level percent change rose by only 26.53%.



In addition to this stellar price performance, the stock has handed out fantastic cash dividends to loyal shareholders. While Algonquin may not be a value by with a price-to-earnings ratio close to 20 at 18.52 and a price-to-book ratio of 2.72, I still see this stock as a great income buy.

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