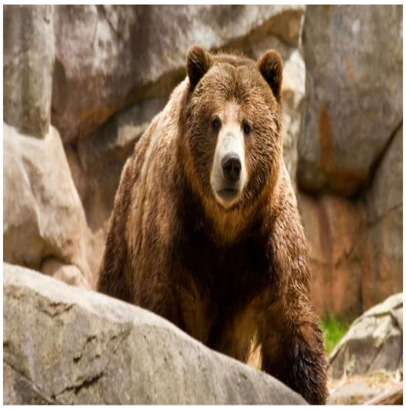

Skip the Bear Market With This 4% Dividend Stock

Description

The coronavirus bear market was difficult. In a matter of weeks, stock markets plunged by double digits. In Canada and the U.S., the losses were the steepest on record.

Recent weeks have brought relief. Massive government stimulus pushed equity prices higher. We're still off the all-time highs, but most of the pain is now in the rearview mirror. Or is it?

Millions of Canadians are now out of work. Job losses continue to rise on a weekly basis. Consumer spending has fallen off a cliff, yet household debt levels continue to mount. Uncertainty plagues the global economy, and it's still unclear how long shutdowns could last. It could be years until we return to normal.

Worse yet, we're experiencing a historic bear market in energy, with oil prices down by two-thirds since the year began. The energy industry contributes 10% of Canada's GDP in addition to billions of dollars in government revenue. Plus, it generates hundreds of thousands of jobs. If current oil pricing persists, we could see yet another economic domino fall.

Stock prices today simply don't reflect the massive risk factors that continue to accelerate in potential severity. But most long-term investors aren't keen to completely pull their money from the market.

If you want to remain invested but wish to mitigate your losses if another bear market hits, the following dividend stock is your best bet.

Avoid the next bear market

Hydro One Ltd (TSX:H) is the definition of a stable business. It's involved in the transmission and distribution of electricity. Analysts call it T&D for short.

To understand the company, you only need to think about how electricity is generated and transported. Take a hydroelectricity plant, for example. Some entity owns the power plant itself, selling the resulting electricity to consumers.

Hydro is a great fuel source as the production price is always zero. Coal plants, for comparison, see their input prices vary on a daily basis, adding risk.

But even a hydroelectric power plant experiences volatility. The price that end-users pay for power varies on a minute-by-minute basis. When industrial production is at its highest, typically in the middle of the day, electricity prices surge.

At night, when these businesses shut down, pricing usually falls, so much that rates can often reach $0 per kilowatt.

In a bear market, owning stock in a hydroelectric utility is safer than that of a coal plant operator. There are simply fewer levers of volatility. But for the *least* amount of volatility, stick with T&D companies.

This is the special sauce

Power plants need to get their energy to market. This is what Hydro One specializes in. It owns power lines that cover 97% of the Ontario province. It has a near-monopoly on energy transmission and distribution. No other company will ever attempt to replicate its network of power lines and transformer facilities.

In exchange for its monopoly status, Hydro Electric accepts intense regulation. But this regulation is actually a blessing during bear markets. The government gives the company pricing *caps*, limiting upside, but it also confers pricing *floors*, greatly reducing downside risk.

And because electricity demand hardly dips during a recession, Hydro One’s profits remain intact wherever the economy heads.

Roughly 99% of Hydro One’s revenues are rate-regulated. Prices are determined *years* in advance. This much visibility lets the company pay out consistent dividends to shareholders. The yield now stands at 4%.

While this stock will never double your money overnight, if you’re happy with high single-digit annual returns in exchange for complete bear market protection, Hydro One should top your buy list.

CATEGORY

1. Coronavirus
2. Dividend Stocks
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1. TSX:H (Hydro One Limited)

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