RRSP Investors: 1 Reliable Dividend Stock to Ride Out the Recession

Description

Analysts widely believe the market rally off the March low is overdone. Are they right?

Economic outlook

Investors are betting big on a V-shaped recovery in the global economy. South of the border, the **S&P 500** is pretty much back to where it started the year, and the **NASDAQ** just hit a record high. In Canada, the **TSX Index** is down only 12% from the February high after plunging 35% at the peak of the March sell-off.

The official unemployment rate in both Canada and the United States remained above 13% in May. Solid job gains in the month surprised analysts who had expected additional losses, but the situation remains serious. That said, the two countries continue to reopen their economies, and unemployment should fall through the end of the year and into 2021.

The IMF's April report predicted GDP will fall 6% in Canada in 2020 and rebound 4% next year. Another report just issued by the OECD, an organization of mostly affluent countries, is less optimistic. The group anticipates GDP contraction of 9.4% in Canada and 8.4% in the United States for 2020. GDP growth in 2021 is pegged at 1.5% for Canada and 1.9% in the U.S. next year.

Even if a V-shaped recovery emerges, it is possible the stock market is getting a bit ahead of itself. In the event a U-shaped recovery is the outcome, we could be in for a meaningful market correction before the end of the year.

Which stocks should you buy?

Investors should take a buy-and-hold approach right now when searching for stocks to add to their RRSP portfolios. Volatility is expected, so it makes sense to seek out stocks with low betas that pay reliable and growing dividends.

Let's take a look at one company that might be an interesting pick right now for a self-directed retirement fund.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) began as the St. John's Electric Light Company in 1885. It was incorporated in 1987 with $390 million in assets. Today, the company has a portfolio of 10 companies with $57 billion in assets that produce power, transmit electricity, and distribute natural gas.

In total, Fortis serves three million customers in Canada, the United States, and the Caribbean.

Fortis raised the dividend in each of the past 46 years. The current $18 billion capital program will boost the rate base over the next four years to support anticipated average annual dividend increases of 6%.

That's solid guidance in an uncertain economic environment.

Investors who buy the stock today can pick up a 3.6% yield. This might not be as high as the yield you can get on the banks right now, but it is still much better than a GIC, and you have steady dividend growth coming in the next few years.

Fortis gets 99% of its earnings from regulated utilities. This means cash flow should be predictable and reliable.

The stock trades for $53 per share at the time of writing. It was $58 before the March crash, so investors aren't down very much, and this might be a good opportunity to add to an existing position.

Fortis isn't risk-free. The company uses debt to fuel growth, and rising interest rates would be negative for the stock. Over the next few years, however, it is unlikely rates will move much higher.

The bottom line

Investors searching for a reliable dividend-growth stock to add to their RRSP portfolios today might want to consider Fortis. The stock tends to hold up well when the broader market hits a rough patch and shouldn't keep you up at night.

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