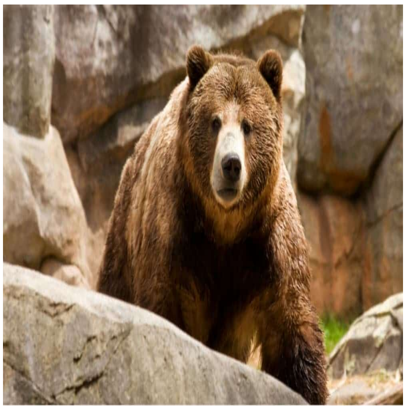

Avoid the 2021 Bear Market With These 2 Stocks

Description

The next bear market is on the way. The gap between stock prices and the underlying health of the economy is untenable.

"The current P/E on the U.S. market is in the top 10% of its history," wrote legendary investor Jeremy Grantham. The Canadian market is similarly expensive, especially when excluding ailing fossil fuel producers.

So, the market is expensive, that's clear enough. But what's going on with the economy?

"The U.S. economy in contrast is in its worst 10%, perhaps even the worst 1%. In addition, everything is uncertain, perhaps to a unique degree. This is apparently one of the most impressive mismatches in history." Grantham concluded. With millions out of work, Canada is in a similar situation.

Grantham's firm recently upped its cash allocation and recycled capital into lower-risk investments. But there are some stocks capable of weathering a severe bear market. In fact, the two picks below could *rise* in value during the next downturn.

Stick with utilities

Want to avoid the next downturn? Own utility stocks. Just take a look at **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN).

From January through March, representing the worst of the coronavirus crash, AQN stock returned *positive* 4%. The **S&P/TSX Composite Index**, meanwhile, returned *negative* 21%.

What's the secret to this bear market outperformance? It's all about regulation and long-term contracts.

Electricity demand doesn't fluctuate much, even during a deep recession. In 2009, for example, electricity demand in Canada dropped by only a few percentage points, completely recovering the following year. That's good news for Algonquin, which gets paid based on how much electricity its customers demand.

But volumes are only half of the equation. What about pricing? This is where regulation is key.

Two-thirds of Algonquin’s business is rate regulated. That means regulators guarantee it will receive a certain pricing range. These rates are set *years* in advance, protecting you from a sudden bear market.

The other one-third of Algonquin’s business isn’t strictly rate regulated, but it is underpinned by long-term contracts spanning a decade or more. This segment is a growth driver, helping the stock quadruple in price in 2010.

Beat the bear market

Algonquin’s mixed-regulation approach provides plenty of downside protection with lucrative growth. But if you want the ultimate recession-proof stock, look no further than **Hydro One** (TSX:H).

Hydro One really is a bulletproof stock. That’s because 99% of its revenue is rate regulated. It knows years in advance how much money it will make. A temporary bear market, no matter how severe, won’t change those projections.

This company is a pure middleman business. It owns power lines that cover 98% of the Ontario province. Power plants need to get their output to their customer base, and the only way to do that is through Hydro One. It’s the closest thing you’ll ever get to a monopoly.

Consistent cash flow allows the stock to pay a 4% dividend. There’s no dividend on the market with more reliability. That payout, combined with 5% annual rate base growth, should generate high single-digit returns in any market environment.

There are few stocks I’d rather own during the next bear market.

CATEGORY

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2. Dividend Stocks
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4. Investing

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

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