2 Utility Stocks to Buy Right Now

### Description

It's time to buy utility stocks. This is where you want to be when markets are uncertain.

"Everything is uncertain, perhaps to a unique degree," says Jeremy Grantham, co-founder of GMO Asset Management.



"Our expectation was that markets would continue to be volatile and would have a hard time making too much headway given very high levels of economic uncertainty and the fact that most of that uncertainty was to the downside," adds Ben Inker, who heads GMO's asset allocation.

Now is the time to protect your downside. Utility stocks let you do that *without* giving up long-term upside potential.

Both stocks picks below prove that you can have the best of both worlds when conditions become uncertain.

## The best of the best

**Canadian Utilities Limited** (TSX:CU) is one of the most reliable stocks in Canada. The stock has 47 years straight of consecutive dividend increases, the longest record of any publicly traded Canadian company. Plus, the stock price has more than *doubled* the return of the **S&P/TSX Composite Index** since 2006.

What produces all this stability?

As with many low volatility utility stocks, Canadian Utilities is considered a *rate-regulated* utility. That means most of its earnings come from areas where regulators dictate how much it can charge. That sounds like a hindrance — and sometimes it is — but it also creates a ton of downside protection.

As a utility, Canadian Utilities' primary business is to deliver electricity to customers. Electricity demand is very stable year over year. Even during the financial collapse of 2008 and 2009, demand fell by only a couple of percentage points.

That means pricing is the only other source of volatility for the company. If its prices are set in advance by regulators, there's no volatility there either!

In total, CU stock has demonstrated significantly less volatility than the market overall over the past 40-plus years. The rate-regulated business model ensures that will persist far into the future. And besides, the 5.1% dividend ain't bad either.

## This utility stock can grow

**Algonquin Power & Utilities Corp** (TSX:AQN)(NYSE:AQN) is a unique case. It's found a way to grow rapidly without adding too much risk. The strategy here is powerful.

Algonquin's business is two-thirds rate-regulated. As with Canadian Utilities, this segment is a safe harbour in any storm. The company knows *years* in advance how much money it's likely to earn.

This cash flow helps generate a 4.8% dividend. That's lower than the dividend of CU stock, albeit the growth of Algonquin is much higher. Over the past decade, this utility stock has risen *five times* in value. That's because one-third of its business consists of higher growth, unregulated earnings.



You might wonder if this segment adds immense risk to the stock. The answer is *no,* surprisingly. The entirety of the unregulated segment is renewable energy, which reduces regulation and commodity risk. And almost all of this generation is tied to long-term contracts, which often span multiple decades in length.

In total, Algonquin has figured out how to add an extra element of growth without sacrificing the stability that investors demand from utility stocks.

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**TICKERS GLOBAL**

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:CU (Canadian Utilities Limited)

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