Why You Need to Diversify Your Portfolio

Description

The need to diversify your portfolio has never been greater. Increased market uncertainty, both from the upcoming US election, as well as the ongoing COVID-19 crisis, are keeping volatility high. To counter that volatility, investors often turn to defensive stocks, such as **Fortis** (TSX:FTS) (NYSE:FTS).

What makes Fortis a great investment option?

There are plenty of reasons why investors continue to flock to Fortis. Chief among them are the company's unique business model, enviable market position, and impressive dividend history. Let's look at each of these factors and why they can help diversify your portfolio.

As a utility, Fortis benefits from a lucrative and incredibly stable business model. In short, Fortis provides utility service in exchange for a set rate of compensation. That rate and the duration of that agreement are set out in regulated long-term contracts known as Power-Purchase Agreements (PPAs). In most cases, PPAs span a decade or longer in duration. As a result, Fortis is able to generate a recurring stream of revenue that is incredibly stable. That stability also means that Fortis can provide a handsome dividend to investors (but more on that point in a moment).

That stability is often viewed as a disadvantage by some investors. The argument behind that view is that because of that stability and recurring revenue, there is little incentive for further growth. Additionally, critics point out that the attractive dividends on offer by utilities rarely provide the requisite funding for growth-focused investments.

In the case of Fortis, this couldn't be further from the truth. The company has an established history of acquisition-based growth, allowing Fortis to expand to new markets. Those acquisitions have also meant that Fortis has grown to become one of the largest utilities on the continent.

Diversify your portfolio

Let's take a moment now to talk about Fortis' recent quarterly report. The company announced results

for the third fiscal this week. During that most recent quarter, Fortis saw earnings come in at $292 million. During the same period in 2019, Fortis earned $278 million. Much of those gains were attributed to rate base growth and higher weather-related sales. On a per-share basis, Fortis earned $0.63 per common share.

One of the common concerns with traditional utilities is their transition away from fossil fuels towards renewables. Fortis has allocated billions towards its capital plan that includes emission savings and renewable energy initiatives. The current annual plan calls for an investment of $4.9 billion during the current fiscal, of which $2.9 billion has been already invested. Turning toward the next five-year period, Fortis has allocated $19.6 billion to its capital program.

What about dividends?

One of the most attractive reasons for investing in Fortis just got a whole lot better. Fortis currently offers investors a stable quarterly dividend, which currently works out to a respectable yield of 3.74%.

In terms of growth, Fortis has a long-established history of providing handsome annual bumps to its dividends. The most recent uptick was announced this week, in the form of a 5.8% increase to the dividend, marking the 47th consecutive year of annual dividend hikes by the company.

Final thoughts

Fortis' dividend alone makes the company an intriguing investment option. Throw in the aggressive stance towards expansion, the growing market share and investments in renewables and you have a very unique and lucrative investment offering.

In short, buy Fortis now, hold it for decades, and diversify your portfolio.

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