A Market Correction Might Be Coming: Don't Bail Out. Play Defence

Description

Seasoned stock market players will not usually be frightened by news that a market correction is coming. They know the market well and understand that stocks will rise and fall depending on market conditions or the environment. If you recall, the TSX pulled off a rally last year, despite the raging pandemic. On May 3, 2021, Canada's primary stock market index is up double digits (+10.21%).

When the stock market is doing better than expected, speculations are rife that a severe correction is next. However, no one has the power to predict precisely when it will happen. Some investors will panic and bail out as soon as the noise becomes louder. Others who have a better grasp of the market will stay on and not follow the herd.

The dilemma when you panic

Financial experts observe that many are anxious about market fluctuations. They will push the panic button at the slightest sign of a significant downturn in equities. Such a reaction is expected these days, given the selloff in March 2020 when the global pandemic hit. However, hasty moves and the dash for cash often lead to a dilemma.

Fleeing the market whenever it sours isn't always a positive thing. You might have problems going back to the market. The advice is not to make emotional decisions if you don't want to ruin your long-term financial goals. You can always play defence, protect your capital, and keep receiving dividends.

Bonds are less risky than stocks, but the yields today aren't desirable. Fortunately, the TSX has a top-tier utility stock that's safe for risk-averse investors. You can enjoy the best of both worlds: capital protection and a consistent income stream.

The best of both worlds

Fortis (TSX:FTS)(NYSE:FTS) is the logical choice if the market uncertainty is too hot to handle. The $25.75 billion utility company from St. John's, Canada, is 136 years old, and engages in regulated power generation, electric transmission, and energy distribution. It's now among the top 15 utilities in North America.

You can liken Fortis to bonds because its assets are highly regulated, virtually 100%. Hence, the diversified utility businesses make the stock low risk. The cost-of-service regulation, along with the performance-based rates in some jurisdictions, dictate Fortis's earnings.

Furthermore, business growth, organically and through strategic acquisitions, is an ongoing concern. The size of Fortis has more than doubled over the last five years due to this successful approach in expanding its regulated utilities in the United States. Dividend growth is another area where Fortis excels.

The defensive utility stock is a Dividend Aristocrat owing to 47 consecutive years of dividend increases. It leads the TSX in dividend growth. If you purchase Fortis shares, the stock price is $54.96. The dividend yield is 3.68%. Since management expects the rate base to grow significantly in the next five years, it plans to increase dividends by 6% annually through 2025.

Shield against disturbances

The utility business of Fortis is a stable business that practically shields the company from economic fluctuations or disturbances. It will continue to generate secure cash flows and pay dividends consistently regardless of the market environment. Hence, when the market tanks, bailing out is not a consideration of Fortis investors.

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