



2 Stocks to Buy in a Worst-Case Scenario

Description

The aftermath of Canada Day saw the Toronto Stock Exchange (TSX) close in record territory once more. Because of good economic data, the index upped its year-to-date gain to 16% on July 2, 2021. While the TSX continues its rally, investors shouldn't be complacent.

Strategists warn of a potential pullback or [market correction](#) if inflation readings increase and central banks raise interest rates sooner than later. Bank of Canada Governor Tiff Macklem hinted that as the economy booms, the rock-bottom rates would end in 2022.

No one can predict the magnitude of the market correction if, indeed, it happens. Investors are duty bound to mitigate the risks and protect their capital from any eventuality. Rebalance your portfolios or move to safer assets with [proven stability](#) in worst-case scenarios.

Take a defensive position

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is the [top-of-mind choice](#) of risk-averse or defensive-oriented investors. TSX's premier utility stock offers no less than core solid, safe, and growing income. You get peace of mind at \$54.76 per share from this \$25.7 billion electric and gas utility company. The dividend yield is 3.69%.

When nearly 100% of earnings are from diversified regulated-utility asset base or long-term contracted operations, the business model is low risk. Since Fortis has instant insulation from commodity prices, cash flows are stable, and earnings growth is consistent. Throw in the more than 45-year record of dividend increases.

With only \$390 million worth of assets in 1987, Fortis is now one of North America's top 15 utility companies. Management continues to advance its low-risk organic growth strategy and expand beyond the current franchise territories. In Q1 2021 (quarter ended March 31, 2021), it wasn't surprising to see a 13.8% increase in net earnings versus Q1 2020.

According to David Hutchens, president and CEO of Fortis, their outlook remains positive. He affirms

the 6% dividend-growth guidance through 2025 as well. Hutchens said, "We continue to enhance shareholder value through strong growth across our diversified businesses."

Guiding philosophy

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) stood tall during the 2008-2009 financial crisis. Before the disaster, it pulled out of structured products, because the bank's guiding philosophy is to not take risks it doesn't understand. The chief risk officer (CRO) then, Bharat Masrani, is now TD's CEO.

According to Ajai Bambawale, TD's CRO today, the fall of Lehman Bros. and the ensuing financial crisis taught them valuable lessons. TD learned to assume the worst-case scenario and has a playbook in place should the episode repeat. Although the 2020 health crisis is different, the bank played it safe by increasing its provision for credit losses (PCLs) to \$4.1 billion.

The anticipated deterioration of loan portfolios didn't happen. Thus, at the end of the close of Q2 fiscal 2021 (quarter April 30, 2021), TD's PCLs were down to \$377 million. Management also reported a 143.9% increase in net income to \$3.6 billion versus Q2 fiscal 2020.

TD's current share price is \$87 (+23.4%), while the dividend yield is 3.63%. Canada's second-largest bank has endured another crisis. The bank now sits on \$14.6 billion in excess CET1 capital over the 9% regulatory flow. Besides pursuing strategic acquisitions in the U.S., TD could raise dividends soon.

Safeguard your money

TSX's upward momentum reflects investors' confidence in the market, as Canada's economic recovery gets underway. Still, it would be best if you had assets that could safeguard your money in a worst-case scenario.

CATEGORY

1. Bank Stocks
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Date

2025/08/18

Date Created

2021/07/05

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