1 Defensive Dividend Stock at a Discounted Price

Description

The stock market is getting a little bit frothy, but it's still not a good idea to be a hoarder of excessive amounts of cash. You can be bearish, but should strive to remain invested (mostly) anyway.

Why? Timing a correction or looking to buy a bottom is timing the market. And timing the market is a fool's (lower-case "f") game. Nothing against holding some amount in cash to take advantage of buying opportunities as they come. But with inflation likely to remain above 3% over the medium term, it's important to manage both upside and downside risks, especially as the world reopens its doors after a brutal year and a half.

There's still plenty of value in the defensive dividend stocks as the appetite for risk rises

Sure, valuations are on the higher end. But given the magnitude of earnings growth, which could be driven largely by pent-up demand, lofty traditional valuation metrics really don't do many stocks justice.

Indeed, many top-performing firms have been clocking in some pretty incredible numbers of late. Against favourable year-over-year comparables, many firms are due for some considerable multiple compression at the hands of enhanced sales and earnings.

Still, given the unpredictability of the coronavirus pandemic and the potential for further waves, it's always wise to have a "Plan B" in case we're hit with a negative surprise in the form of an undiscovered variant that evades the protection of vaccines. What's a good "Plan B"?

It's wise to have some cash on the sidelines, sure. But defensive dividend stocks, I believe, are a great place to be in right now while valuations are modest. Many such defensives sport handsome payouts that act as a great shelter from inflation rates north of 3%.

Defence wins championships, at least over the longer term!

Consider **Hydro One** (TSX:H), a cheap Canadian stocks that look like a great way to place defence in today's rocky market. Shares of the regulated utility (and near-monopoly of Ontario's transmission lines) have shown an absurdly low correlation (currently at 0.19) to the broader markets over the long haul, which means shares are more likely to hold their own come the next inevitable pullback.

While it also means Hydro One stock is less likely to follow in the market's footsteps in a continued rally, I do think the valuation is in a spot such that the odds are tilted in favour of investors, especially those looking to reduce cash without adding considerable amounts of risk to their portfolios.

For bears who want to stay invested, Hydro One is a great defensive option, as most others look to double down on their at-risk holdings going into what could be a wildly volatile September.

Hydro One is one of the most boring stocks on the **TSX**, and it will struggle to grow meaningfully over the medium term, given the high magnitude of government ownership. That said, those looking for a bond proxy will likely do far better than any "risk-free" security in this low-rate world.

Hydro One stock sports a 3.5% dividend yield and a modest 10.1 times earnings multiple.

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