1 of My Favourite TSX Stocks for Your Retirement Portfolio

Description

Investing is more like a marathon than a sprint. Stable returns from a slow-moving stock for a longer period will be better off than a growth stock rallying just for a few months or years. Also, large stock price swings for the sake of higher returns in the latter case will probably cost you a sound sleep. So, here is one of my favourite TSX stocks that fits the former criterion.

Stable TSX stock for your retirement portfolio

Stock markets do not like uncertainties. Whenever there are ambiguities, be it geopolitical tensions or reopening fears, investors dump risky assets like stocks and turn to safe havens. However, some sectors within the market remain comparatively safe, even during these uncertainties. Yes, I'm talking about the utility sector.

Consider Canada's top utility stock **Fortis** (TSX:FTS)(NYSE:FTS). Utilities are called "widow-and-orphan" stocks because of their slow stock movements and consistently rising dividend payments. However, stocks like FTS have created decent wealth for shareholders over the years. FTS delivered an average annual total return of almost 10% in the last decade and 14% since 2001, beating the **TSX Composite Index** by a large margin.

Fortis: A top Canadian utility stock for patient investors

Fortis caters to more than 3.4 million customers and operates in Canada, the U.S., and the Caribbean. It earns almost entire of its net income from rate-regulated operations. This facilitates cash flow predictability and allows management to distribute dividends to shareholders.

Fortis stock pays a decent dividend yield of 3.5% at the moment. Apart from the yield, its long dividend-growth streak of 47 consecutive years indicates reliability and stability. Utilities pay out a large portion of their net earnings as dividends to shareholders. Fortis gave away almost 67% of its earnings in the form of dividends last year.

Interestingly, Fortis can continue this outperformance in the coming decades as well. It plans to invest almost $20 billion through 2025. This will expand its rate base along with its customer base. In addition, recessions dent the earnings of many businesses, but utilities remain largely immune to economic downturns, because you are not going to stop using electricity during recessions! So, utility companies like Fortis keep earnings a stable rate of return on their operations irrespective of the economic scenario. And that's why Fortis forecast a dividend increase of 5-7% per year through 2025.

Interest rates versus utility stocks

Rising interest rates are generally considered detrimental to utilities. However, I think rates could remain at these record-low levels for some time before they start rising gradually. Their premium yield still indicates a handsome spread compared to interest rates, say, three years down the line.

Notably, utility stocks outperformed growth stocks during the pandemic-led crash last year. When broad market indices tumbled by almost 35% in March 2020 amid global lockdown fears, utility stocks at large stood relatively strong and fell only 18%. That's because investors turned to dividend-payer utility stocks, and lower volatility was the need of the hour then.

Bottom line

Utility stocks like Fortis might underperform growth stocks in the short term, but they create robust wealth for the patient, discerned investors over a longer time frame. It's not prudent to invest all your portfolio in risky, growth stocks. Some portion of your portfolio should go to these defensives, which will create a stable passive-income stream for life.

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