3 Dividend Stocks to Buy if You're Worried About a Stock Market Pullback

Description

One of the toughest things you'll have to do when investing is dealing with market pullbacks. It's events like those that cause a lot of individuals to stay away from investing entirely. However, there are ways you can mitigate losses in case those events do take place. One of the most common ways investors protect against major downside is by investing in dividend stocks. This is because it's been shown that dividend companies tend to be more stable during times of uncertainty. Here are three dividend stocks to buy if you're worried about a market crash or correction.

Choose one of Canada's top dividend stocks

When it comes to choosing a dividend stock, investors should look for a company that has managed to continue increasing its dividend over the past five years (at minimum). There are a couple reasons for this. In terms of generating income, it allows the investor to continue increasing the dividends they receive, which could be important if supplementing or replacing your traditional income with dividends is a goal. However, in the grand scheme of things, it tells investors that a company generally has good capital-allocation practices, which can be beneficial in the long run.

Fortis (TSX:FTS)(NYSE:FTS) is one of the greatest dividend companies of all time. As of this writing, it holds the second-longest active dividend-growth streak in Canada at 47 years. If you consider how many periods of uncertainty have come around in the past five decades, that feat becomes even more impressive. One reason Fortis has been able to remain such a strong company may be due to the industry it operates in. Fortis is a provider of regulated gas and electric utilities, which are necessary regardless of what economic conditions we find ourselves in.

Invest in a Canadian favourite

In terms of the most popular dividend companies in Canada, few will ever get as much attention as the Big Five banks. Canadians understand that the banking industry is highly regulated in this country. That makes it very difficult for newer competitors to displace the leaders in this industry. As a result, five banks often find themselves within the portfolios of many Canadians. Of that group, **Bank of Nova Scotia**

(TSX:BNS)(NYSE:BNS) is my top pick.

Unlike its peers, Bank of Nova Scotia has managed to expand outside North America and into emerging regions like the Pacific Alliance — an area which includes Chile, Columbia, Mexico, and Peru. Economists have been forecasting the economies in those countries to grow much faster than the countries in the G7 over the next few years. In terms of being a dividend stock, Bank of Nova Scotia has managed to increase its dividend for about the past 10 years. Its forward yield of 4.61% can be rather enticing as well.

You don't have to choose specific dividend stocks

If choosing a portfolio of individual companies seems a bit too daunting, don't worry. There are viable alternatives. You could choose to invest in an exchange-traded fund (ETF), which holds a basket of dividend companies. This spreads your risk across several different companies, which could provide a lot more stability to your portfolio. There are many excellent dividend-focused ETFs available, but one that would be good to consider is **iShares S&P/TSX Canadian Dividend Aristocrats Index** (TSX:CDZ).

This ETF aims to replicate the performance of the S&P/TSX Canadian Dividend Aristocrats index. It holds 86 different companies and provides investors with a steady source of income via monthly dividends. The ETF has a very attractive 3.17% dividend yield. Although you shouldn't expect to see tremendous upside in these sorts of ETFs, this particular fund has managed to return 38% over the past year.

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