The Low-Risk Stock Your Portfolio Needs

Description

Every well-diversified portfolio needs one or more defensive stocks. We often gravitate towards growth or income-producing stocks, which are great ways to generate a well-diversified portfolio. The need for adding one or more defensive stocks is just as important. Here's a low-risk stock to consider adding to your portfolio today.

Here's a defensive investment like no other

That low-risk stock to consider is **Fortis** (TSX:FTS)(NYSE:FTS). Fortis is one of the largest utilities on the continent. In addition to boasting operations across Canada, the U.S., and the Caribbean, Fortis also has over three million utility customers.

Utilities are incredibly stable businesses. In short, the utility is bound by long-term regulatory contracts to provide utility services. For as long as the utility provides that service, it gets paid. And, unlike groceries or your mobile data plan, you can't opt for a more value-based choice for utility service.

To put it another way, utilities generate a stable and recurring revenue stream, irrespective of the overall state of the economy. This factor alone makes Fortis a great low-risk stock for any portfolio, but there's much more to consider.

A low-risk stock doesn't always mean no growth and no income

There's little doubt that Fortis is a great investment. The company has a stellar business model that is stable, growing, and continues to generate a recurring revenue stream. Fortunately, that recurring revenue stream can also translate into growth and income prospects.

Unlike most of its traditional utility peers, Fortis has taken an aggressive stance toward growth. Specifically, Fortis has pursued increasingly larger acquisitions. This has allowed Fortis to rapidly expand into new markets, further solidifying an already impressive moat.

In recent years, that expansion has shifted more towards transitioning to renewables and upgrading existing facilities. Fortis has earmarked a massive multi-billion-dollar capital fund towards that funding those initiatives. This will allow Fortis to remain competitive with the emerging batch of renewable energy providers.

Turning to income, Fortis offers investors a healthy quarterly dividend. That dividend currently amounts to a respectable 3.50% yield. To put that earnings potential into context, let's consider a $30,000 investment. For that amount, your initial investment will earn $1,050 in the first year.

The reason I mention just the first year is two-fold. First, Fortis has provided annual bumps to that dividend for 48 consecutive years. Assuming that trend continues, Fortis will achieve Dividend King status within the next two years. There are currently no Canadian Dividend Kings on the market.

Additionally, there's little reason to think that trend won't continue. Fortis has already provided guidance for annual increases of 6% spanning out the next several years.

Finally, there's also the question of whether you need to draw on that income just yet. We often think of needing income stocks only when we're near retirement. Alternatively, investors a decade or more out from retirement could buy Fortis now and reinvest those dividends until needed.

Final thoughts

No investment is without risk. Market volatility has increased significantly this year for a variety of reasons. Investing in a low-risk stock that is less volatile such as Fortis helps minimize that risk.

In other words, Fortis is a great buy-and-forget stock, irrespective of which way the overall market heads.

CATEGORY

1. Dividend Stocks
2. Investing

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