Fortis Stock Is a Buy Regardless of Where the Market Goes

Description

2022 has been a volatile year for the stock market. The **S&P/TSX Composite Index** is down by 8.2% year to date after posting an 11.9% recovery from its October 12 levels in recent weeks. Despite the Canadian benchmark index's recent upward trend, it is difficult to predict what the last few weeks of the year have in store.

To mitigate the impact of all this volatility, it is necessary to introduce stability to your investment portfolio. That is one of the most important reasons you should consider adding **Fortis Inc.** (TSX:FTS) stock to your self-directed investment portfolio, regardless of where the market goes.

Let's look at why Fortis stock is an excellent asset to buy and hold in all market environments.

A natural choice in unstable markets

Fortis is a $25.97 billion market capitalization utility holdings company that owns and operates several utility businesses across Canada, the US, Central America, and the Caribbean. It is one of North America's largest utility businesses and operates an incredibly lucrative business model.

The company provides an essential service to roughly 3.4 million customers through electricity and natural gas utility services. People need these utilities regardless of broader economic circumstances, making the company's revenue streams reliable and secure.

Beyond providing an essential service, Fortis stock also enjoys stability through the long-term contracted and highly regulated nature of the markets where it operates. The predictable nature of its revenue streams allows the company to comfortably fund its capital programs and grow its shareholder dividends.

All this stability naturally makes Fortis stock a defensive asset that acts as a passive income stream for its investors. To make the deal sweeter, Fortis is also a Canadian Dividend Aristocrat with a 49-year dividend growth streak. It does not just offer reliable dividend payouts, it also increases its shareholder dividends each year.

In the most recent quarter, Fortis reported earnings of $326 million, beating $295 million in the same period last year. Though its stable business model might make it a boring investment for rapid growth-seeking investors.

Fortis stock does not typically deliver upticks that match the broader market when it soars. However, the same quality makes it an attractive option during market downturns by mitigating portfolio losses through its stability.

It does not come without risks

Despite the heavily defensive nature of its industry and business model, Fortis stock does not come without risks. As of this writing, FTS trades for $54.09 per share, down by 17.1% from its 52-week high. FTS stock declined in 2022 alongside rising interest rates enacted by central governments to control high inflation levels.

As reliable as a business as it is, Fortis and other utilities take on heavy debt loads. With benchmark interest rates higher, more substantial borrowing costs have impacted its net profit margin, bringing it down by 5.4% in its most recent quarter. In turn, it has negatively affected performance on the stock market.

Foolish takeaway

While some investors might view the lower stock price as a deterrent, savvier Fools may consider it an opportunity to buy on the dip and lock in higher dividend yields. The recent downturn has inflated its dividend yield to 4.18%. By investing in FTS shares at current levels, you can benefit from medium-term capital gains as the stock recovers and its growing shareholder dividends in the long run.

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