



Does Fortis Inc. Belong in Your Portfolio?

Description

The stock market has been on quite a run in the last few years. The longer the bull market persists, the more that investors will start fearing a correction or even a crash.

Deutsche Bank's research shows that the stock market, on average, has a correction every 357 days. A correction is defined as a drop of at least 10% from its recent high. Unfortunately, I don't have a crystal ball to tell you when the next correction will occur, but I can suggest a way to prepare for such an eventuality.

Spoiler alert: this piece of advice does not involve loading up on Bitcoin.

The case for utilities

One way that investors can prepare for a market meltdown is to add stocks to their portfolios that tend to hold up better in such situations. This is where utilities come in. These are companies that deliver essential services, such as electricity, and are therefore more resilient when the markets turn sour. In other words, they have a relatively low correlation with the broader markets.

Take **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) for instance, which has a beta of 0.01. A beta equal to one means that the stock moves with the market, so a beta less than one indicates that the stock is theoretically less volatile than the market. During the Financial Crisis of 2008, the S&P/TSX Composite Index was down approximately 50% during a 10-month stretch, but over that same period, Fortis was down only 20%.

Let's have a closer look at Fortis.

Fortis Inc.

Fortis is a leader in the North American regulated electric and gas utility business, with total assets of approximately \$47 billion and 2016 revenue of \$6.8 billion.

Whether we are going through an economic expansion or a recession, Fortis just keeps chugging

along, and this is not about to change. The company has announced a five-year \$14.5 billion capital program from 2018 through 2022. The program should help Fortis grow its existing 3.2 million customers and as a result, the company should also see some growth on its top line in the years to come.

Dividend payments are discretionary, which means that companies can cut their dividends or even eliminate them all together at any time. However, dividend payments issued by utility companies have been very reliable historically.

Fortis is no exception, as it has increased its dividend in 44 consecutive years and offers a yield slightly under 4% as of this writing. The payout ratio has been hovering around the 65-70% range in the last few years. This is an acceptable ratio for a utility company and leaves room for future increases. In fact, the company intends to grow dividends annually by an average of 6% through 2022.

It is also worth noting that the company has delivered an average annualized total shareholder return of 10.2% over the last five years, which easily surpasses the 8.6% return put up by the S&P/TSX Composite Index over that period.

Foolish bottom line

Let's face it; this incredible bull market can't last forever. A market pullback will inevitably happen—it's just a question of when. Will you be ready when that time comes? Consider adding Fortis to your portfolio today to help you prepare.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:FTS (Fortis Inc.)
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