

Diversify your utilities

The days when investors could count on utilities to sit quietly in a portfolio for years and pay a fat dividend are over. In recent years, the sector has become more difficult to predict, and more caution is advised.

Individual utilities tend to be more diversified today than in years past. While that diversification in business mix may have boosted the sector's profit-growth potential, it has also brought greater exposure to economic cycles.

Utilities remain one of the best sources of investment income — utilities in the S&P 1500 Index average a dividend yield of 3.4%, higher than that of stocks in any other sector besides telecommunications services.

But shrewd investors will practice their own form of diversification to guard against weakness in a given market sector:

Safety in numbers. An investor who wants to own \$100,000 in income-generating utility stocks might be better served putting \$5,000 into each of 20 stocks, rather than concentrating on just a few.

Safety in variety: As the chart below illustrates, industry groups within the utility sector do not always move in lockstep. To guard against industry-specific volatility, investors should consider buying utilities from several different market segments.

