3 Easy Ways to Protect Your Portfolio From the Next Crash

Description

There will be another stock market crash. I am 100% certain of that fact. Predicting a crash is the easy part. If only I could predict when and why, I'd be a superstar—at least, until I missed the next crash.

There are a million reasons why the TSX could have a dismal 2015. Crude could continue to suffer, dragging down the economies of Alberta and Saskatchewan. The housing bubble could pop. China could finally crack, sending ripple effects through markets around the world. Or something else could happen. We really don't know.

Preparing your portfolio for the next bear market is prudent, especially as we continue to make new highs. You don't even need to do anything drastic; just a few small moves can help save your portfolio from thousands in paper losses.

Mix in bonds

The argument goes that when you're young, you should invest primarily in equities. After all, equities are proven to provide the best returns over the long term, and young investors have plenty of time to ride out the ups and downs.

But I know many young investors who take this a step too far and have no bonds in their portfolio. That may seem like a good idea when markets are going up, but it can test the resolve of even the most steadfast investor when markets plunge.

Think about it this way. Assume the **TSX Composite** falls 25%, while bonds actually go up 5% during the same time period. An investor with just a 25% position in bonds decreases their loss from 25% to 17%. Don't underestimate the psychological impact of that.

The easiest way for investors to get bonds in their portfolio is via an ETF. The **iShares DEX Universe Bond Index Fund** (TSX:XBB) is a solid choice. It's safe, liquid, and yields nearly 3%. With bonds, simple is the best option.

Get boring

It’s well known that so-called boring stocks tend to do well during times of economic turmoil.

Take **Loblaw Companies Limited** (TSX:L), Canada’s largest grocer and pharmacy chain with its acquisition of Shoppers Drug Mart in 2013. During the financial crisis of 2008-09, its shares actually went up as the market dove. The logic is simple—even during tough times, we still have to eat. Heck, you can even argue that sales will increase during recessions, since most people will cut their restaurant spending.

The other nice thing about Loblaw is the pharmacy business. Medicine is another one of those things you don’t cut back on just because times are tough. Plus, with more than nine million Canadian baby boomers with all sorts of aliments, we know the demographic trends are there to support the sector.

Own alternate assets

Just like you should diversify your portfolio into some bonds, you should also own other assets that aren’t so correlated to stock markets.

Gold is one example. As investors start to lose confidence in fiat currency—something that happens often during bear markets—gold is primed to do well. And after a few years of declines, the yellow metal could see a nice relief rally once things start to look bleak.

I continue to advocate that investors stay away from most individual gold miners. There’s just too many risks in the mining business, which takes away from owning the underlying asset. You could pick the wrong miner and miss the gold rally completely because of management ineptitude.

Instead, look at a company like **Franco-Nevada Corporation** (TSX:FNV)(NYSE:FNV), which provides financing to gold miners in exchange for the right to buy production at a ridiculously cheap price. By spreading its capital around to dozens of different facilities around the world, Franco-Nevada takes away the risk that one big mine will end up being a bust.

CATEGORY

1. Investing
2. Stocks for Beginners

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)
3. TSX:L (Loblaw Companies Limited)
4. TSX:XBB (iShares Core Canadian Universe Bond Index ETF)

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