Worried the Market Will Tank? Here Are 3 More Things to Do

Description

The U.S. stock market has been holding up better than the Canadian market because the latter has a bigger reliance on energy and mining sectors.

After the market tanked in 2008, the U.S. stock market has essentially gone up for seven years, while the Canadian market has retreated for most of 2015 and recovered slightly since the start of the year due to a commodity price recovery.

If you're worried about the market tanking, which we know will happen at one point, there are some things you can do.

Hold quality dividend stocks

You can allocate a portion of your portfolio to quality dividend stocks that are priced at a value.

Many quality dividend stocks yield more than fixed-income assets. You can collect cash dividends and put them in your high-interest savings account or a short-term GIC.

Why choose short term? You can buy more quality stocks when the market tanks.

Some quality dividend stocks that are inexpensive today include **Brookfield Property Partners LP** (TSX:BPY.UN)(NYSE:BPY), **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP), and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). They yield 4.6%, 5.1%, and 4.4%, respectively.

They are from different industries, so investors can consider them as a mini, diversified portfolio. An equal-weight portfolio in these three stocks generates an average yield of 4.7%.

If you buy $5,000 in each of these companies today, you'll generate $705 of annual income. That income is likely to rise because all of them tend to increase their dividends every year.

If the market tanks, holding quality dividend stocks is a defensive strategy that helps generate healthy cash flows that you can use to buy more shares at a discount.

Build a cash position

You can be more proactive in building a cash position by deliberately holding off on investing and saving your paycheques.

Let's say you earn a Canadian median income of roughly $35,000 and you're able to save 15% of your paycheque each month. You'll be able to save a little over $400 every month, or $5,250 a year.

Sock away those savings in a high-interest savings account or a GIC until you see substantial value in the stock market to invest in.

Visualize your stock portfolio cut in half

Lastly, try to visualize your stock portfolio cut in half. This is an essential exercise, and doing so will prepare you mentally in case it actually happens. In the last recession, many stocks fell 20-50% from the pre-financial crisis level to the low point in 2009.

Conclusion

If you're afraid the market will tank, consider holding a part of your portfolio in quality dividend stocks that generate above-average income.

You can also build a larger than normal cash position by securing your paycheque savings in high-interest savings accounts or GICs.

Lastly, visualize your portfolio being cut in half. By going through this exercise, you should be able to better cope with the real thing if it happens.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:BPY.UN (Brookfield Property Partners)

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