Worried the Market Will Tank? Here's What You Can Do

Description

The U.S. stock market has been holding up better than the Canadian market because Canada 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 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.

Inverse ETFs

The typical inverse ETF tracks the performance of an index. If that index falls 1%, it will appreciate 1%. Some inverse ETFs go as far as seeking the daily investment results of its associated index by 200% or 300%. So, if the index falls 1% in a day, it'd rise 2% or 3% on that day.

If the index falls 5% in a day, the inverse ETF will rise 15%! However, I don't recommend buying an inverse ETF.

It's simply too risky. Buying one means you're betting the market will go down. What happens when the market goes sideways or up? You'll lose money.

Rather than buying inverse ETFs, consider **Fairfax Financial Holdings Ltd.** (TSX:FFH) instead.

Why buy Fairfax Financial?

Fairfax Financial is similar to **Berkshire Hathaway Inc.** in that Fairfax has subsidiaries in the insurance business, so it can invest the premiums paid by policyholders for a higher return before that money is claimed.

Since 1985, Prem Watsa has been the chairman of the board of directors and CEO of Fairfax. He is a value investor much like Warren Buffett, so he invests in undervalued stocks.

Fairfax's track record is phenomenal. From 1985 to 2015, a period of 30 years, Fairfax's book value per share and price per share compounded at an annual growth rate of 20.4% and 19.4%, respectively.

More recently, from 2007 to 2015 its book value per share and price per share compounded at an annual growth rate of 7.26% and 10.9%, respectively.

Simply put, Fairfax has the tendency of outperforming the market across different periods.

Not only that, but as of February 2016 Fairfax's equity portfolio was 100% hedged. In February, as the U.S. and Canadian markets dipped, Fairfax hit an all-time-high of $780 per share.

So, buying Fairfax is like buying an inverse ETF, but it's much safer.

Did I mention that Fairfax offers a 2.2% dividend yield? A GIC yields about the same amount of interest, but Fairfax offers downside protection for a stock portfolio.

Conclusion

Holding inverse ETFs is not for the faint of heart because most investors have long positions, and they'll have to turn their brains around 180 degrees when they think about inverse ETF positions. That's why I don't recommend inverse ETFs.

On the contrary, buying and holding Fairfax Financial Holdings is a much safer hedge against a tanking-market scenario because Fairfax has its insurance businesses and value investments that either generate steady cash flows or are expected to lead to outstanding long-term returns.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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