Should Investors Should Brace Themselves for a Bear Market in 2018?

Description

Earlier in the month, it seemed like the aging bull market was finally coming to an end. There was blood in the streets, as the Dow Jones Industrial Average suffered a 666-point decline on Freaky Friday, following by two +1,000-point decline days in the following week.

While everybody was in panic mode, you should have braced yourself for such a reset following January's parabolic upward movements across all U.S. markets. The market was a raging bull — that is, until it wasn't. The U.S. jobs report noted higher wages, implying higher inflation and higher interest rates — much higher interest rates.

New Fed chair Jerome Powell is going to have a busy year, as many believe rates could be hiked by three times, or possibly even four, to combat rising inflation. Four rate hikes could be tough to digest for the U.S. markets, and as bond yields rise, we could be in for another correction (10% decline), and the bear may finally rear its ugly head (+20% decline). This certainly shouldn't come as a surprise to anyone, especially since the February correction, or "reset," may have been a warning sign of major pain that may be lying ahead.

According to **Morgan Stanley**, the recent correction was just an "appetizer" that's leading up to a "main course."

The bear may certainly make an appearance this year, but as a Canadian investor, you stand to suffer from less pain, simply because the Canadian markets have less to correct versus the U.S. market, which has been red-hot following Trump's presidential victory. As a do-it-yourself investor, you shouldn't make drastic changes to your portfolio to time the markets for a crash; however, it would be a wise move to rebalance your portfolio if you find that it's lacking in defensive positions if you've become overly bullish since your last major portfolio restructuring.

When the bear finally comes around, you won't need to worry with low-beta, defensive stocks like **Canadian Utilities** (TSX:CU), which is currently down ~18% over rising interest rate fears, which are bad news for utilities; however, a great deal of pessimism is already baked in to shares, and I think there's far less downside should a bear market make an appearance later in the year. You're getting a rock-solid 4.54% dividend yield to smooth out the rough terrain. The stock's also undervalued at 14.7 times forward price to earnings, which is substantially lower than the company's five-year historical average price-to-earnings multiple of 20.2.

Bottom line

There aren't many places to hide if you're running from a bear, but with cheap, defensive dividend stocks, you'll be fully-equipped once it comes out of its cave, whether it's later this year, next year, or several years from now.

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