Timing the Markets Is a Waste of Your Time! Do This Instead

Description

Many pundits believe that a recession is highly probable over the next three years. The current bull market is about to turn 10 years old, and with a yield curve inversion imminent, all signs are pointing to an economic contraction and a nasty bear market in spite of the healthy state U.S. economy.

The stock market is forward-looking, and although the U.S. economy has looked unstoppable of late thanks to U.S. tax reform and laxed regulations, some investors are worried that the trade war between the U.S. and China could trigger a global recession that we're long overdue for. Even if a peaceful resolution is made on the trade front, investors should still consider "battening down the hatches" with defensive stocks to avoid the pain that'll inevitably arrive once that bear rears its ugly head.

Trump's stimulatory fiscal policy in the late stages of this market cycle can only keep the bear in its cave for so long. It can't stay in hibernation forever; that's impossible. Market contractions are only healthy, so if you're a gambler, a bear market or crash in the early 2020s is looking like a pretty solid bet, and if trade wars are thrown into the mix, the markets could head into a recession as early as next year.

While that may be startling, I'm in no way advocating timing the markets. Instead, I'd encourage investors to adopt a "risk parity" strategy to be prepared for whatever the markets throw at you.

On the other side of the coin, some investors are pretty bullish, including long-time doomsdayer Prem Watsa of **Fairfax Financial Holdings Ltd.** (TSX:FFH). While you could certainly take a contrarian stance by aggressively hedging yourself or selling all your stocks in anticipation for the next plunge (like Watsa did previously), you need to realize that in doing so, you're taking a risk in that you stand to miss out on another year or two (or more) worth of substantial gains, as the bull makes one last run in its old age.

Who knows? Trump's pro-growth agenda could prolong the bull market's life through the end of his presidential mandate, whether that's 2020 or 2024. Thus, timing the next recession is pretty much impossible. It's not an exact science, as there are way too many uncertain variables, most of which depend on the decisions of one man: President Trump.

An escalating trade war could pull the plug on the bull market right here and now. So too could an overly hawkish U.S. monetary policy, which may be doved down with Trump looking over Fed chairman Jerome Powell's shoulder.

So, unless you can get in the mind of President Trump, there's no point in forecasting an exact date for when the next recession will be, because odds are, you'll be wrong.

You can prepare for hard times and take a ballpark estimate ahead of time, however. While you may not crush the markets with defensive stocks in the core of your portfolio in a strong economy, you'll still be able to profit with a higher degree of downside protection.

The recent **Facebook-**induced "tech wreck" was just another trigger for a growth-to-valuation rotation that I think we haven't seen the last of.

Growth stocks, on average, have crushed value stocks over the last decade, but over the extremely long term, value stocks typically prevail. And as we inch deeper into the end stages of the current market cycle, I think it'd be wise for investors to consider adopting a "risk parity" or all-weather strategy by incorporating more defensive value names, rather than being overweight on cyclical or growth names.

Fairfax is a great place to start. Although CEO Prem Watsa has a more bullish tone than in the recent past, he's still got downside protection in mind. Come the next recession, his firm looks poised to decline to a lesser extent than the broader market.

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Author
joefrenette