Investor Beware: The Bull Could Be Headed for Life Support This September

Description

Ah, September: the end of summer, when investors come back from their vacations and get ready to hit the sell button, as they move from a state of relaxation to a state of panic and/or shock. Like it or not, September is an ugly month for stocks. It's the start of many catastrophic implosions, and while it may seem absurd to "sell in August and go away," the point of the matter is that investors need to be prepared for anything.

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Consider the volatility that September welcomed us with thus far, such as the nasty tech sell-off, whose shock waves were felt across the broader markets. While I could go into great detail about the potential issues at hand, most notably Trump's trade war, the yield curve's closeness to inversion, and the old age of the U.S. bull market, I'll get straight to the point: if any imminent recession is going to happen, September would be the perfect time for it.

So, if the recent bout of volatility scares you, then you're probably not prepared for a scenario whereby Mr. Market pulls the rug from underneath you. He doesn't care if you're all-in on cyclical names or if you're bullish on Trump's pro-growth agenda. His moves seldom make sense, so given his unpredictable nature, it'd be reckless to not have an insurance policy for when the markets finally tank.

I'm not saying you should sell your stocks before we head deeper into the month that's most feared by investors. A relief rally could be in the cards, and Trump may do everything in his power to look "great" before the midterms by inking deals with Canada, or heck, even China! That would cause a melt-up that nobody would see coming!

So, instead of taking one stance, you should take on an "all-weather" defensive approach. That means buying low-beta, defensive stocks that can hold their own in the event of a recession. Preferably, these are highly regulated securities that have a small degree of correlation to any other holdings within your portfolio.

Think **Northland Power** (TSX:NPI), a 5.5%-yielding renewable energy play that's down over 13% from its all-time high. Not only can you help make the environment great again as your hard-earned dollars go towards reducing the planet's reliance on fossil fuels, but you're getting a fat paycheque every quarter. And not even the worst recession will stop this from happening given the highly regulated nature of the firm's cash flows.

Moreover, you're getting ample growth, and you won't need to bet on cyclical names that may have a high degree of correlation to the broader markets. While the stock has been a dud over the past few years with its relatively flat stock, I'd argue that given the degree of downside protection, modest valuation, and volatility padding (from the dividend) you'll receive is well worth the price of admission. There's no need to be greedy by overexposing yourself to risks by playing one side of the coin: the bull side.

The bear side could happen this month, or it could happen in several years from now. There's no way of telling, but if you're not at all prepared for a crash, I'd encourage investors to re-balance their portfolios to include names like Northland Power or any other high-yielding defensive plays that'll still make you rich under any economic environment.

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