In a Market Like This, Defence Wins Championships

Description

Things went from ugly to just plain hideous on Wednesday with the NASDAQ nosediving 4.43% in a single-trading session that saw the selling volumes accelerate in the final hour. We're hearing pundits compare this recent plunge to the start of the Great Recession, with fingers being pointed at President Trump and Fed chair Jay Powell for a U.S.-China trade "cold war" and rapid-fire rate hikes, respectively, both of which could send the global economy into a tailspin.

If you've tuned into any televised financial shows, it's hard not to fall into a panic with some so-called experts calling for more blood in the coming months. No, the economy isn't as pristine as Trump or Powell may believe, but that doesn't mean the bull market isn't going to live to see its 11th birthday. We could be at the bottom right now, in which case the most battered of tech names would be strong buys. But on the flip side, we could very well be in the first innings of an economic downturn with little to no room to cut rates.

In any case, I'm not trying to time a bottom here, and neither should you.

Stop asking yourself: 'When will the market bottom?'

Is the bottom in after the recent plunge? The confident economists on TV don't know, nor does Warren Buffett, so stop trying to time the markets because odds are, you're going to be wrong and it will cost you dearly. While I'm sure the experts on TV have done their homework, whether it's analyzing the technicals or studying timely economic figures, the fact remains that the future near to medium-term moves in the stock market is at the mercy of contingent events that are on the horizon.

Will Powell go back on his auto-pilot rate hike schedule? Will China make a compromise to prevent the trade cold war from escalating to the next level? At this point, it seems that nobody believes that these events will happen. But instead of trying to attach probabilities to such events, you should trim the excessively risky positions from your portfolio as you adopt an "all weather" or risk-parity strategy – – one that I adopted late last year that I've been pushing on Foolish investors for the past year.

Let's play some defence!

I've been pounding the table on out-of-favour defensive dividend-paying stocks as the markets continued roaring towards all-time highs, urging investors to reduce their cyclical exposure if they've neglected to play defence to capitalize on amplified gains from the upmarket.

Indeed, rate-sensitive utilities like **Fortis** (TSX:FTS)(NYSE:FTS) are looking great again as everything else has fallen deep in the red. I've personally punched my ticket to the "boring show" at Fortis back in summer, and would encourage Foolish investors to join me, as the stock's still cheap when you consider the downside protection it can provide your portfolio if worse comes to worst.

Fortis isn't a stock that's going to make you rich quickly, but when you consider the margin of safety involved at current levels, I'd say that a heavy position in the stock today would be a great way to minimize your damage if Powell's rate hikes bring the economy to its knees, ironically resulting in rate cuts after investors are left holding the bag.

Foolish takeaway

Don't sell all your growth stocks, and go all-in on defensive utilities. The point that I'm trying to drive home is that you should be giving the defensive portion of your portfolio more love if you've found that you've been neglecting it and have been chasing more timely returns with aggressive, cyclical names.

Remember, in the grander scheme of things, defence wins championships.

Stay hungry. Stay Foolish.

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