Recession-Proof Your Portfolio With These 2 Stocks

Description

The headlines are beginning to scream that a recession might be on its way. We already know that Canadians on average have amassed a ridiculous amount of debt. While people have become generally numb to the high number, around $1.70 of debt for every $1 in disposable cash, other statistics have begun to add to recession worries.

The banks have reported some of their worst profits in years, putting investors on high alert. Adding more fuel to the fire were poor GDP numbers, which came significantly below estimates.

Recessions can be scary for investors. As earnings from companies contract, investors often run for the hills. Cyclical companies, like those that sell consumer discretionary items, can be very hard hit since the average working person, whose job is now gone or in danger, is no longer able to shell out to buy less-than-necessary goods.

Travel and vacations are often cut, affecting airlines and other vacation-related businesses. If the housing market is also hammered in the economic slump, you can expect building material suppliers and related industries to also feel the pinch.

But you have to do something with your money, so what should you buy? One good place to start is thinking about companies that provide products or services you need to use no matter the economic situation. Therefore, grocery stores and residential REITs might be a good place to hide out.

Canadian Apartment REIT (TSX:CAR.UN)

Although REITs in general might not be great investments during an economic downturn, CAPREIT is one that might just hold up fine. This REIT provides housing to Canadians and Europeans. Occupancy is strong and is likely to continue to be strong, as renting has become the reality for many Canadians, especially those who live in expensive urban centres such as Vancouver and Toronto. The REIT runs at almost full capacity, with 98.9% of its rental units occupied.

Demand for housing has strongly impacted financial results, with net operating income rising 11.6% and normalized funds from operations (NFFO) up 15.5% in 2018 as compared to year end 2017. The strong results continue to fund its 2.6% distribution with a conservative payout ratio of 65.7% of NFFO.

Northwest Company (TSX:NWC)

People need to eat, so food providers tend to hold up all right in an economic slowdown. Northwest in particular is a good choice, since it tends to specialize in servicing under-reached, potentially lower-income areas in Canada, Alaska, the Caribbean, and South Pacific islands that the larger grocery chains may not serve. Stores such as RiteWay Food Markets and Giant Tiger are some of the names that are operated by this internationally diversified grocery company.

Grocery stores are not generally known for their intense growth, but Northwest has been putting forth some decent numbers. In 2018, top-line sales grew by 5.9% over 2017. Same-store sales grew a moderate 1.2% over the same period. The stock currently pays a reasonable dividend of around 4% — a dividend it increased by 5% in December.

Protect your investments from economic trouble

It can be difficult to ride out a recession. Stocks can come down hard when the economy hits a bump. While there is no way to totally avoid the portfolio troubles a recession can bring, investing in steady stocks that are focused on basic human needs like CAPREIT and Northwest should help to smooth the ride while you wait for good times to return again.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. TSX:NWC (The North West Company Inc.)

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