2 Stocks to Prepare for the Global Debt Meltdown

### Description

I've been a bit of a perma-bear in recent years. Pretty much the only time I have been in any way excited about stocks was when Canadian dividend payers got cheap last fall. I was buying stocks hand over fist in those few months hoping that we would not only be getting deals on dividend stocks, but also would finally be able to make some sort of yield on cash in a bank account or GIC.



That was short-lived. Stocks have shot back to within spitting distance of their nose-bleed highs they were hitting only a few months ago. Volatility has collapsed back to its lows with the VIX at 12. It's starting to look like 2017 all over again, with the market calm as the Fed and Bank of Canada seek to keep their respective economies low.

But a calm market that is hitting new highs is not the problem. Markets, we have heard, can climb a wall a worry. But there is more to the story than just high markets and high valuations. No, the real issues are deeper and might be setting us up for big time trouble.

## Global debt is enormous

It is extremely troubling that debt is continuing to climb around the world at an incredible rate, and no one seems to worry about it. Personal, government, and corporate leverage is now close to all-time highs. *Time* magazine and Bloomberg recently reported that global debt is around 310% of, or three times, global GDP.

Household debt in emerging markets, even those that traditionally had high household savings rates, grew by 30% in the third quarter of 2018 as compared to the third quarter of 2017.

Historically, the domestic savings rate has been an important factor in determining the stability of an economy. Thanks to massive levels of borrowing in developed nations and emerging markets, economies are suffering and are having a very difficult time growing as people struggle to service their debt. A collapse in global debt would have massive repercussions worldwide.

## How can you prepare your holdings?

If a major financial downturn is around the corner, you need to get your ducks in a row. Buying debt-free companies with predictable cash flows is one of the best ways to insulate your portfolio. **Franco Nevada Corp.** (TSX:FNV)(NYSE:FNV) is probably one of the companies you can hold in a downturn.

As a debt-free company that receives the majority of its revenues from precious metals producers, Franco Nevada will benefit from rising gold prices during times of instability, will have no issues from debt, as its balance sheet is clean, and pays a 1.36% dividend yield to boot.

A utility like **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) is another company that will be a fine to hold during a downturn. Everyone still needs electricity, so this company should continue to receive steady cash flows to support its 4.5% dividend for years to come. The fact that this company focuses on renewable energy doesn't hurt either, given the global push to move away from fossil fuels as a source.

## Be prepared



There is a large amount of fragility in the financial system. While it is probably a good idea to pause rate increases while some leverage is decreased in the system, the central banks should hold the line on rates. Any rate reductions will likely worsen the problem.

With investing, you're either ahead, or you're behind. It is extremely rare to time an investment perfectly, except in cases of pure luck. Prepare today for a global debt meltdown. Start cutting your own leverage so you aren't carried away with the downturn.

Add companies with little to no debt and predictable cash flows. No one knows when the market will turn, so begin to prepare yourself today.

**CATEGORY**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

**TICKERS GLOBAL**

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FNV (Franco-Nevada)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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