Here's How TSX Investors Should Start Managing Risk in Case of a U.S. Recession

Description

From elder care to funerary services, from infrastructure to gold, there are a lot of options out there for a **TSX** investor looking to make their portfolio recession-proof. Before looking into a few options than can keep an investor's money safe and even grow one's wealth during a downturn, let's take a brief look at one of the main reasons why pundits are predicting that a major correction in the North American markets may be just around the corner.

Three little words and one big implication

If you move in investment circles, there's little doubt you've heard the phrase "yield curve inversion" tossed into the conversation of late. When long-range interest rates start paying out less than short-term rates, you know you've got a problem, and unfortunately for the yield curve, that's just what's been happening south of the border. A negative long-term market view is emerging, with a U.S. recession being predicted by pundits.

Now, it's not so bad when the yield curve inverts briefly and snaps back, but when a full quarter passes and the inversion remains, it's usually a sign that a downturn is on the way. According to the data, that milestone looks like it has now been passed. As a doctor might put it, the American economy has approximately nine to 18 months left to live, so it might as well go out and enjoy itself.

Better safe than sorry

Even if a recession doesn't happen, risk management is always a good idea when it comes to stock investing. Planning and stripping out risk assets is a good idea right now, with careful tending of holdings the order of the day. TSX investors should consider cashing in overvalued stocks in risky industries and replacing them with classically safe sectors wherever possible.

Ideas for safe havens include gold, utilities, consumer staples, residential REITs, infrastructure, elder care and healthcare in general, and some top-tier banking, though not necessarily in that order.

Companies such as mining giant **Barrick Gold** (TSX:ABX)(NYSE:GOLD), funerary services provider **Park Lawn**, apartment real estate trust **CAPREIT**, utilities legend **Fortis** (TSX:FTS)(TSX:FTS), and **Brookfield Infrastructure Partners** are all excellent places to start recession-proofing your portfolio.

Let's take Fortis as perhaps one of the sturdiest stocks in that list. Paying a 3.46% dividend yield that should satisfy the long-term income investor, Fortis is the market leader in clean energy with has far less risk attached than trade-dependent competitors in the energy sector such as Enbridge. Fortis commands an enormous customer base and a canny management strategy, outperforming the utilities sector.

A smart play in the gold space would be Barrick Gold, which is growing increasingly more productive and offers investors a yield of 1.05%. As a long-term play, a serious amount of upside could be enjoyed by patient capital gains investors as the company rakes in the income from its impressive range of productive mines, including the recently negotiated Nevada Joint Venture with Newmont Goldcorp.

The bottom line

While some signs are pointing toward a recession in the U.S., Canadian investors relentlessly bullish on the economy may nevertheless want to scale back on risk and start putting money into safe haven assets. Gold and utilities may be the most stable of the bunch, with consumer staples coming in a close third. Both Barrick Gold and Fortis look like strong plays right now, with Fortis perhaps the top stock to buy ahead of a potential recession.

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Date
2025/08/02
Date Created
2019/07/07
Author
vhetherington