



A Storm Is Coming: Here's How to Protect Yourself

Description

We've had a great run in stocks over the past 10 years. Far outpacing economic growth, stock market returns have generally been positive for most since the depths of the financial crisis in 2008-2009.

While it's impossible to know for sure when a bull run will end, there are a number of indicators that are starting to flash warning signs for investors.

In this article, I will go over some of the warning signs and give some options of where to hide from the approaching chaos.

Low rates are inflating asset prices

Rates are at all-time lows, which means that bubbles are practically destined to be formed. It's already not too hard to imagine that these bubbles are already taking place in asset classes such as real estate, bond markets, and stocks.

What is interesting is how easy it is to boil into a new sense of normal. These asset prices and valuations are abnormal historically, but we already accept them as reasonable. The "This time it's different" mentality is alive and kicking.

People are beginning to lose faith in central banks

To quote Albert Einstein (who admittedly was not a central banker), "the definition of insanity is doing the same thing over and over and expecting a different result."

How is it possible that after a little over a year of rising rates that central bankers are already thinking of lowering rates?

It comes down to the fact that central bankers are afraid of their own creation — over leveraged personal and corporate borrowers. Apparently, economic models are unable to account for people's ability to consume and inability to make responsible borrowing decisions.

As is evidenced by record-high debt to income levels in many countries around the world, including Canada, most people will not make sound financial borrowing practices.

They will borrow to the point where they will put themselves, and, by extension, the entire nation, at risk of economic collapse. And what's the best solution central bankers can come up with?

Lower rates again so that people who have already made bad decisions can access more financial cocaine.

Protect yourself now

Yes, there is more than likely a reckoning coming. While I am not recommending that you sell all your stocks, build a fallout shelter, and buy a lifetime's supply of canned beans, I do suggest that you prepare yourself for a severe recession.

You buy insurance on your house, your car, and even yourself, so why not protect your portfolio? Personally, I prefer to buy insurance [put options](#) on the **S&P 500** and the **NASDAQ 100** at a strike about 10% below the market price.

I have begun to buy up to a maximum of 5% of my portfolio and put options with expirations of over a year.

Given the fragility in the global economy (I mean debt, not the trade issues), I prefer to have some insurance I can use to cash in on discounted stocks in the event of a downturn.

If you don't have any precious metals producers in your portfolio, it might be a good idea to pick some up now. At the moment, I am intrigued by the silver producers. Silver hasn't had a big move in years and might be due for a spike.

It is lagging gold by the largest margin in history, and could be appealing if gold continues to move higher on currency and debt instability.

One attractive producer is **Pan American Silver Corp.** ([TSX:PAAS](#))(NASDAQ:PAAS). In times of crisis, this diversified [silver miner](#) has pushed above \$30 a share.

While its dividend is puny at less than 1%, it does give you a small amount of return, and the company has jacked up the dividend during the good times, so that might happen again this time. It also has a fair amount of cash and very little debt.

Be careful

At this stage in the game, the global economy is very brittle. Trade issues and tariffs could be a match, but it is irresponsible levels of borrowing and the resulting inflated asset prices that are the dynamite.

Take steps to protect yourself from a potential disaster by purchasing disaster insurance in the form of put options and precious metals stocks now.

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