



How to Weather a Recession in 3 Easy Steps

Description

Fears of an economic recession have ramped up dramatically in the last couple of weeks. The yield curve has inverted, and this has predicted several of the previous few recessions.

But the reality is that nobody knows when the recession will hit. There have been many disappointed investors in the past few years who had feared an [economic slowdown](#). They thought they could time the market and sold a lot of their investments, only to see the stock market rocket upwards and hit new highs.

You will never know precisely [when a recession will start](#) or when it will end. It's better to be prepared for when it happens.

Here are three steps you can take to weather the storm of a recession.

Figure out your risk tolerance

Investors have been fortunate in the past 10 years since the 2008 financial crisis. There haven't been many large drops in the stock market. Because of this, you might not be aware of your risk tolerance since you haven't experienced too many declines in your portfolio.

The biggest problem is panic selling when your investments start losing value and locking in substantial losses. Knowing your risk tolerance will help prevent you from doing this and will ensure you have the proper portfolio mix.

Know your weaknesses

Look closely at the companies you are invested in and try to understand their weaknesses. Maybe a company has had very high growth in the past few years, but achieved it by taking on a lot of debt. Or perhaps a company is vulnerable to a strong competitor, but it has been propped up by the strong economy. You could consider dropping your weighting in some of these stocks.

A recession is a buying opportunity

“Be greedy when others are fearful.” This is a quote from Warren Buffett. He famously said it during the 2008 financial crisis, when he was buying stocks while others were panic selling.

Let’s take a look at **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) and see what happened to the company during the last major recession.

Brookfield is a global firm headquartered in Toronto. It supports the employment of almost a thousand people worldwide. The company has over a hundred years of experience in alternative investments. Brookfield is a value investing company with a contrarian point of view, and capital preservation sits at the heart of the businesses.

On January 4, 2008, Brookfield Asset Management was trading at \$21.09 per share. By January 2, 2009, the shares were at \$11.79. Many investors were selling this year, and this cut share prices almost in half. The stock recovered quickly and within three years was at pre-recession levels. Today, the stock price is sitting at \$68.87 for an almost 600% increase in stock price since the financial crisis.

A recession can provide many similar buying opportunities.

In conclusion

A recession storm will hit you someday. It might not be today or tomorrow, but you can count on it happening. It is best to be as prepared as you can. Make sure you know your risk tolerances, identify your weaknesses, and look to buy stocks when it happens.

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