Recession 101: Part 3 of 5

Description

Yesterday, my article was focused on leading and lagging indicators, which help to anticipate and formally declare recessions.

Today, we will be focusing on making investments during a recession. This goes without saying, but investing during recessions is extremely risky, as incorrect timing could result in significant losses.

That being said, stock markets are extremely volatile during recessions, which means the opportunity to make money is huge. If you're nearing retirement age, I would strongly caution you against investing in equity stocks and would recommend that you invest in Treasury Bills, Government of Canada bonds, or long-term ETFs if you can tolerate more risk.

An example of the risks during a recession was the 2008-2009 recession, which resulted in the **TSX/S&P Composite Index** declining 88% from a high of 14,790 to a low of 7,950 in just nine months. However, there are several industries that are considered "safer" during a recession.

Utilities stocks

Utilities stocks tend to fare better during recessions, as it is considered a defensive sector. The companies are generally slow growing and pay high dividends.

Further to this, consumers still need electricity and natural gas during a recession to power their houses. This means that during an economic downturn, even the most frugal of consumers will still need to purchase utilities, which drives revenues.

There is no doubt that utilities stocks will take a hit, but the fact that people require utilities regardless of the economic situation means that it is a generally safe investment through all business cycles.

One solid Canadian utilities company is **Fortis,** which has been profitable in each of the past fiveyears. Net income has grown from $379 million in FY 2014 to $1.2 billion in FY 2018 for a compoundedannual growth rate of 25.20%, which is impressive.

Consumer staples

Similar to utilities stocks, consumer staples are also in a defensive sector. Regardless of the economic condition, consumers still need soap, toilet paper and toothbrushes, which means that sales won't take too much of a hit.

A *Business Insider* article succinctly confirms this with a quote from **Barclay's** equity strategy team: "Overall, the [consumer] staples sector captures most of its relative return when the market is falling, confirming the sector's reputation for being defensive."

One good consumer staple stock I recommended this month is **Metro.** Metro recently acquired the Quebec pharmacy company Jean-Coutu for $4.5 billion. This is a genius move by Metro, as it allows the company to cross-sell its products which means Jean-Coutu branded items will be in Metro and vice-versa.

Metro's net income also increased 32% from FY 2014 to FY 2017, which is a compounded annual growth rate of 7.28%.

The bottom line

It is very hard to invest in the stock market during a recession and come out on top. In fact, recessions are the result of an overheated economy, and the contraction is meant as a deterrence for investors so the economy can correct itself.

That said, this leads to significant volatility, which gives investors an opportunity to make money if you have an appetite for risk.

For those of you who are more risk averse, I would recommend putting your money in Government of Canada bonds or Treasury Bills. For the audacious few, best of luck in your future investments!

If you liked this article, click the link below for *exclusive insight.*

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/15
Date Created
2019/08/28
Author
cliu