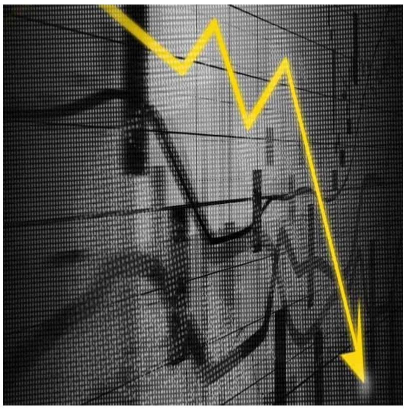

Protect Your Portfolio From an Economic Collapse

Description

The famous author Mark Twain has been attributed the quote, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." For many investors today, that comes in the form of interest rates and their relentless march downwards, driven lower by central banks around the world.

For most of us, this has resulted in a certainty that whenever there are issues with debt, our generous leaders will step in to ease our pain by making it subside through lower interest rates. We know they will do this, because for as long as we remember, they have done so.

The problem is, our memories are too short. Rates have been falling only since the early 1980s. Although that represents a lifetime for many in the financial industry today, the truth remains that this is just a short period of time from a historical perspective. Throughout most of history, rates have moved in a generally rolling pattern within a range of 2-7%.

The anomalous double-digit rates of the 1980s represented a massive spike, which was implemented to combat destructive inflation. Ever since, rates have come down until they sit where they are today, approaching negative territory.

This represents an unusual situation in investing history that everyone is taking as "the new normal." Any shock outside of what people now know could set us up for a major economic shake-up. So, how do you prepare for the unknown, for what is totally in conflict with "what you know for sure?" What if rates rise unexpectedly or debt collapses?

Buy precious metals

Buying both the physical commodities themselves, such as gold and silver, or purchasing an ETF like **iShares S&P TSX Global Gold Index ETF** (TSX:XGD) will give you exposure to precious metals . The ETF consists of miners and royalty companies engaged in the precious metals space.

Although XGD's dividend is not large at 1.19%, it will likely grow larger, as the companies that compose the index begin paying dividends when earnings increase. It has a management expense ratio of 0.61%, making this a relatively more expensive ETF.

Using the gold producer ETF will give you more dollar-based leverage over the price of gold as well. The price of metal and mining shares will likely accelerate in price much quicker than the metals themselves, leading to higher returns. You also do not have to worry about picking an individual winner.

Have cash ready

If you've made a good return on any growth stocks, you should pare back some of those gains. Sell half of any winners that have doubled and put the cash into a mixture of precious metals and a high-interest savings account or ETF. Do the same with any dividends you collect.

iShares Premium Money Market ETF and **Horizons Active Floating Rate Bond ETF** have decent yields of 1.8% and 2.28%, respectively. Their MERs aren't too bad either, with CMR charging 0.28% and HFR charging a slightly more expensive 0.4%.

Be prepared for the worst but hope for the best

While the odds are starting to tilt heavily towards the possibility of a downturn, this does not make a pullback a certainty. Don't rush out and sell everything you own, just be more cautious. If there is a recession, you will be thankful you have cash on hand to pick up assets.

CATEGORY

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

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Date
2025/07/23
Date Created
2019/08/31
Author
krisknutson