Recession Warning Signs Are Flashing Louder Than Ever: 3 Ways to Protect Yourself

Description

It's been over 10 years since the last North American recession, and Wall Street is starting to worry we're headed for another one. After the U.S. two-year and 10-year yield curve inverted, commentators began speaking of the metric's unassailable ability to predict recessions. It is true that yield curve inversions predicted nine out of the last 10 recessions, although the lag time between inversion and recession was often quite long — in one case, 22 months.

Regardless, when you've got inverted yield curves, investors piling into gold and silver, and raging trade wars at the same time, it's a good idea to review your portfolio. The following are three asset classes you can consider for "recession-proofing" your holdings.

Bonds

Short-term bonds are many portfolio managers' go-to investment in recessions. Lacking the downside of stocks and the volatility of long-term bonds, they're a staple recession holding. Treasury bills are considered essentially risk-free, while short-term government bonds are close to it. Of course, bonds don't have the upside you get from stocks in good times, so if you're going to switch to bonds to protect yourself from a downturn, make sure to continually revise your portfolio and look for signs of a future recovery — at which point, you'd want to switch back to stocks.

Utilities

Utility stocks are another recession go-to. Although they aren't quite as safe as bonds, they're fairly stable and tend to fall less during recessions than other equities. Utility stocks also pay stable dividends, which may stay consistent or even rise during recessions. For this reason, utilities are often considered bond alternatives — equities that you can count on to deliver steady returns and hold their value well during recessions.

Gold

A final asset class to consider for recession protection is gold.

Gold tends to rise during recessions, as jittery investors seek the protection of a hard asset that will hold its value even when the bottom is falling out of everything else. It makes sense. Gold is one of the oldest stores of value in the world and has proven its resilience from antiquity until today.

There are many ways to invest in gold. You can buy physical bullion, which requires storage but may be the best option for protection against a true economic collapse. You can buy options, which are risky but tend to amplify returns.

Or, you could invest in gold stocks. Gold mining companies tend to rise as gold itself rises, and their returns may exceed those of the commodity itself.

A great example of this is **Kirkland Lake Gold** (TSX:KL)(NYSE:KL). Up 78% year to date, it has performed far better than gold itself. The company has mined about 450,000 ounces of gold so far this year and is seeing its extraction costs fall at the same time as the commodity price rises. In the company's most recent quarter, it reduced its mining costs by about 29%, which contributed to a 69% increase in net income. It aims to mine 920,000 to one million ounces this year and is well on its way to hitting the target. If it does, we can expect the stock's epic rally to continue.

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/28
Date Created
2019/09/01
Author
andrewbutton