Worried About a Recession? Here Are 2 Things You Can Do to Help Protect Your Portfolio

Description

Canadians aren't convinced that things aren't getting better for the economy, despite strong economic numbers. If you're one of those worried about the future, the good news is that there is plenty that you can do to minimize your overall exposure. Below, I'll look at two different approaches investors can take to try and protect themselves in the event that a recession takes place in Canada.

Diversifying into other parts of the world

One way that investors can always protect themselves is through diversification. While you can diversify into other industries into a wide range of stocks in the TSX, there aren't as many options out there to diversify outside Canada and even North America as a whole. After all, generally, the U.S. and Canadian economies move in similar patterns and even investing in U.S.-based stocks may not be sufficient for worried investors.

That's where a stock like **Dream Global REIT** (TSX:DRG.UN) could be a very attractive option. Not only does the stock offer investors a great yield, but the ability to tap into foreign markets gives investors a way to minimize exposure to the Canadian economy. Dream Global's 215 properties are spread across four large European countries: Germany, Belgium, Austria, and the Netherlands.

Without dependence on the Canadian economy for success or growth, Dream Global can give investors the diversification they seek. In addition to offering a way to expand their portfolios, the stock is a good investment on its own, producing strong profits and generating good growth over the years.

Year-to-date returns for the stock have been more than 20%, and in five years the share price has risen by close to 60%. As Dream Global continues to grow and expand into Europe, the stock will become more diversified and an even better buy for investors.

Utilizing an ETF

Another way to diversify for investors is to hold the market portfolio. By investing in a stock that mirrors the TSX or NYSE, investors can be safely assured that any losses will be in line with the market. And while that may not be comforting amid a large sell-off, unlike investing in an individual stock or even a basket of shares, investors can remain confident that the markets as a whole will recover. The only question being how long the recovery might take.

What investors can also do is invest in ETFs that hold many dividend stocks as well. By doing this, investors will be able to benefit from diversification and the dividend income earned can help offset any losses incurred as a result of a downturn.

Bottom line

It's difficult to predict the scope of a recession, and that's why there is no one approach that will be ideal to prepare for it. If there's a global recession that affects many parts of the world, investing in other geographical areas may not offer much help. The best option for risk-averse investors may simply be to pull all of their money out of stocks and put them into savings to earn a risk-free rate of return.

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