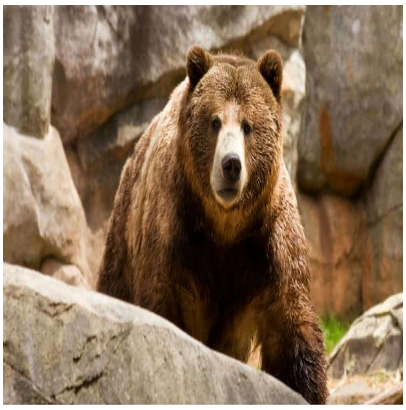

3 Stocks to Sell Before the 2020 Bear Market Hits

Description

A bear market in 2020 is becoming a real possibility. According to the National Association for Business Economics, economists see a 7% likelihood of a recession starting this year, but by the end of 2020, nearly half believe a recession is probable. If it doesn't hit in 2020, it will likely hit by mid-2021, with more than two-thirds of economists expecting a recession.

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Recessions nearly always result in bear markets, sending stocks down 20% or more. In some cases, market declines exceed 50%. If you want to protect your portfolio, now is the time to act.

Whether or not you own the stocks listed below, pay close attention to what makes them strong sells. Knowing which *kinds* of stocks to sell is even more important than knowing *which* stocks to sell.

Discretionary is pain

The worst kind of company you can own during a recession is a consumer discretionary business, as consumers don't need to patron. Compare that to a consumer staple business, which consumers will continue to purchase from regardless of economic conditions.

Toilet paper, tobacco, and bread are considered consumer staples. Diamonds, furniture, and hotels are considered consumer discretionary.

Another consumer discretionary item: snowmobiles. **BRP Inc** (TSX:DOO)(NASDAQ:DOOO) stock nearly quadrupled in value from 2016 to 2018 as North American sales for snowmobiles, jetskis, can-ams, and watercraft took off.

These items are clearly luxuries, not necessities. In a recession, you can bet sales will plummet. Judging by previous downturns, there could be at least 30% downside here.

Top of the cost curve

In a commoditized market like oil, those at the top of the cost curve can still make plenty of money. In fact, when markets are surging, these are the stocks you want to own.

For example, **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) has a breakeven cost of roughly US$40 per barrel. Shale companies in North America are producing below US$20 per barrel, pegging Canadian Natural squarely at the top of the cost curve.

If oil prices are US$45 per barrel, the company generates a profit of just US$5 per barrel. But if prices increase by 11% to US$50 per barrel, Canadian Natural’s profit doubles!

When oil is headed higher, this stock is a great place to be. But during a recession, it can get killed. During the 2008 financial crisis, oil prices dropped by 50%. Canadian Natural, meanwhile, fell by 70%. Simply put: during a bear market, don’t own high-cost companies like this.

Valuation matters

In a bear market, even the best stocks are impacted. That’s because the best stocks often have the highest valuations, and the higher the valuation, the more room there is for multiple compression. Consider **Shopify Inc**, which trades at a jaw-dropping 25 times forward sales. **Tesla Inc**, for comparison, trades at just two times forward sales.

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Shopify is a terrific company, but if the market goes risk-off, the valuation multiple could compress to 15 times forward earnings or less. That would result in at least 30% downside, even if the company continues to deliver financially. Owning sky-high valuation stocks in a bear market is a sure way to make your portfolio suffer.

CATEGORY

1. Dividend Stocks
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4. Tech Stocks

TICKERS GLOBAL

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2. TSX:CNQ (Canadian Natural Resources Limited)

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