1 Critical Mistake Every Investor Should Avoid During a Recession

Description

Financial markets are becoming increasingly fearful, and with good reason: the trade war between the U.S. and China combined with a global manufacturing slowdown and weaker growth in the Eurozone all point to a global recession occurring.

This has sparked a barrage of sensational headlines, which are driving greater consternation among investors and seeing many consider exiting the stock market altogether because they are fearful of losing money.

Don't overreact to short-term news

While stocks can be particularly volatile over the short term, as evidence by the **TSX** suffering sharp declines amid growing fears of a global recession, panic selling is unwise. Aside from the near impossibility of timing the market, one of the most proven means of creating wealth is to buy and hold quality dividend-paying stocks for the long-term regardless of the market's short-term gyrations.

It also pays to stick to your strategy and not be overly concerned by short-term market movements.

The benefits of investing in quality dividend-paying stocks over the long term becomes apparent when considering the performance of Canada's banks over the last decade.

The Big Six were punished by the market during the Great Recession, with many losing half their value or more in six months as fear swept through financial markets and global credit markets froze virtually overnight.

Since then, the big banks have performed exceptionally well, delivering considerable value for investors. After sinking to a multi-year low in February 2009, **Bank of Nova Scotia** rebounded strongly, delivering to date a return of over 282% including dividends, which is 13% on an annualized basis.

Royal Bank of Canada has delivered similar returns over the same period, gaining 384% or 16%

annually when dividends are included. Any investor who elected to sell their bank stocks at the height of the global financial crisis would have missed an opportunity to make some solid returns and receive those steadily growing dividend payments.

This underscores why it's important to stick to your investment strategy, buy quality dividend-paying stocks with solid growth prospects as well as wide economic moats and not overreact to negative market news.

By holding your stocks regardless of the state of the market, you also don't incur brokerage fees or need to pay tax on any realized capital gains, thereby reducing the impact that these have on investment returns.

Canada's best recession-proof stock

While the Big Six banks are attractive investments with a long history of delivering value for Canadian investors regardless of economic downturns, one top recession-proof stock to own is **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP).

The partnership possesses similar defensive characteristics to utilities, including a wide, almost insurmountable economic moat and inelastic demand for the utilization of its assets, rendering it an ideal stock to hold during an economic slump.

Since listing on the TSX, Brookfield Infrastructure has delivered, including distributions, a stunning 565% over the last decade, which is significantly more than any of the big banks. That equates to annualized return of 21%, which is significantly greater than traditional income producing assets such as bonds and GICs.

There is every indication that Brookfield Infrastructure will keep delivering solid value for investors. Many of its infrastructure assets, including ports, railroads, toll roads, energy utilities, data centres and cellphone towers are all critical to modern economic activity, meaning that even during economic slumps demand will remain strong.

When coupled with most of its revenues coming from contracted or regulated sources and the oligopolistic nature of the industries in which it operates, its earnings are virtually guaranteed and will continue to grow.

Foolish takeaway

For these reasons, it's vital not to react to any short-term bad news which impacts financial markets and stocks. It does, however, pay to hedge against the threat posed by a recession and ensuing market correction, and Brookfield Infrastructure is the ideal hedge against those events.

While investors wait for the economy and markets to rebound, they will be rewarded by its regular sustainable distribution yielding a juicy 4%.

CATEGORY

1. Bank Stocks

2. Dividend Stocks
3. Investing

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2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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