The Market Is Ready to Crash: Is Your Portfolio Ready?

Description

Recessions happen on a regular basis, even if they're infrequent. In 1981, the Canadian economy was hit following an inflation scare. In 1990, an oil price shock sent the economy into free fall. In 2008 and 2009, the subprime mortgage crisis created the worst economic disaster in decades. Just a few years ago, in 2014, another oil price shock pushed Canada into a brief recession.

Recessions don't wait for you to get prepared. Take a look at your current holdings. How did they perform during previous recessions? Odds are that your positions were severely impacted. Many investors believe that they can time the market, selling before a big downturn hits, but history shows that it's much harder in practice.

If you want to protect your portfolio from the next recession, prepare *today*. Your first step is to reassess what you require from your portfolio.

What are your needs?

If your money will be invested for the next several decades, it may not be worthwhile to alter your investments in anticipation of a crash. That's because market timing is incredibly difficult. Hedge fund extraordinaire Ray Dalio once likened market timing to playing poker against the best players in the world. Market timing seems obvious in retrospect, but in real-time, it's a near-impossible feat.

If you won't need your capital for another 20 years or more, don't worry about the next market downturn. Even if you're in the red for a few years, you'll have plenty of time to make back the gains.

If you *will* need your capital in the near future, for retirement or any other major expense, market timing could actually be advantageous. Not because you'll have any luck predicting the market's gyrations, but because you can reduce the systemic risk to your lifestyle.

It's up to you

Let’s say you have $800,000 saved and are approaching retirement. That amount of capital could generate a passive income that would allow you to lead a comfortable lifestyle. But if you’re invested in the wrong stocks, your future could be imperiled.

Canadian Utilities Limited (TSX:CU) is a perfect example of a recession-resistant stock. Its dividend, which has increased every year since the 1980s, hit 6% earlier this year. An $800,000 portfolio earning 6% annual dividends would produce a passive income stream of nearly $50,000. Not crazy, but enough to live on.

If a recession hits, you’re likely safe with Canadian Utilities stock. During the 2008 financial crisis, shares were hardly impacted, continuing to pay a sizeable dividend along the way. Your $800,000 portfolio would have continued to produce annual income of $50,000 or more.

Encana Corp. (TSX:ECA)(NYSE:ECA) is a perfect example of a recession-*prone* stock. During the financial crisis of 2008, its shares plummeted by 50%. After oil prices collapsed in 2014, the stock price went on to lose an additional 80% of its value. To be sure, Encana stock has risen considerably during bull markets, but recessions have completely wiped out any of those gains.

The point here isn’t that you should time the market based on where you think it’s headed, but what you require from your portfolio. If you’re approaching retirement, or are currently retired, you may not be able to afford the significant volatility that stocks like Encana provide. Companies like Canadian Utilities may have less raw upside, but their stability can continue to deliver on your portfolio needs through tick and thin.

Remember: your portfolio should work for you, not anyone else. If you want to prepare for the next recession, load up on stocks that can consistently create wealth through age 50 and beyond.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

PARTNER-FEEDS

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

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