Recession Coming? Stash Your Cash in These 3 ETFs

Description

You've got to hand it to our Bank of Canada governor; he stood firm on rates when practically every other government in the world has gone slap-happy on interest rates. I am especially stunned with the United States, which is in a period of record-low unemployment and feels the need to expose its country to massive risk by making "emergency cuts" in the face of what might happen if there is a slowdown.

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Everything in history seems to indicate that this will eventually end very badly. The longer it goes on, the worse it will likely eventually be. People seem to think that simply because there hasn't been a major problem yet, there will never be a problem.

The problem with these strategies is that the laws of physics and economics don't allow for bad decisions to go on forever without there being a negative consequence. Lowering interest rates during an economic expansion seems rather daft, and cheap debt has historically ended rather negatively. In 1924, people were quite excited when then-president Coolidge greased the economic wheels with tax cuts and tariffs to protect American jobs. They didn't feel the same way a few years later.

The difficulty for investors is that timing a downturn is basically impossible. In 1924, for example, it still took about five years for the market to finally collapse. Well before the housing crisis in 2008-09, there were numerous articles written about the weakness in the housing sector. At least as early as 2002, many authors and analysts were stating that the housing sector was overvalued and susceptible to collapse.

There is a very good chance we are at least moving closer to a period of economic contraction, if not full-on economic collapse. The signs for bubbles are all there; cheap credit, technological advancement, and speculation based on hopes and dreams rather than fundamentals. Investors would be well served to prepare for a downturn so that they can capitalize on cheaper prices if they arrive. But how do they do that?

I would not advise selling any solid dividend-paying companies since these will provide income through a recession. Utilities, telecoms, and other recession-proof companies will continue to pay out income in good and bad times. Pay down debt, especially high-interest debt, so that you have the flexibility to buy stocks and other assets as the market retreats. When others are selling out of necessity, you will be able to buy.

Finally, build up cash. Don't worry about selling stable dividend stocks, but rather collect their dividends and put those dividends into cash savings vehicles. Great ETF savings vehicles include **Purpose High-Interest Savings ETF**, **Horizons Active Floating Rate Bond ETF**, and **iShares Premium Money Market ETF**. The management expense ratios (MERs) on these ETFs are reasonable at 0.16%, 0.40%, and 0.28%, respectively.

Of the three ETFs, my personal favourite is Purpose. This is truly a cash ETF where the money is kept in various high-interest savings accounts (HISAs). The biggest downside to the ETF is that not all brokers will allow investors to buy it if they offer their own HISA options. The current yield is 2.15%.

My second favourite option is Horizons. The yield is the highest of the three at 2.55%, which is appealing, although there is some extra risk associated with this product. The yield is generated through a variety of short-duration corporate bonds and currency hedging strategies.

iShares is not a bad choice either. It is similar to Purpose with its relatively low MER, but it still has a slightly higher risk of earning its interest with a combination of government and corporate short-term bonds. The biggest drawback is the fact that it has a slightly lower yield than the other two options at 1.81%.

Have a strategy in this complicated time. It is impossible to know when bad times will arrive, so slowly build cash generated by your dividend stocks. Reduce your outstanding debt. Stash your cash in one of the ETFs mentioned to get a generous yield while keeping that cash building when the rainy days arrive.

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Date
2025/08/25
Date Created
2019/11/06

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