2 Clever ETFs to Protect Your Portfolio If a Recession Hits in 2020

Description

Just because all is well at all-time highs doesn't mean it's going to be like that forever. Should U.S.-China trade talks fall through, we could be at risk of another garden-variety correction, and if Elizabeth Warren finds her way into the White House next year, the stock market could quickly shed 25% of its value.

In any case, it's only prudent to be ready for whatever 2020 has in store. And there's no better way to combat uncertainty and volatility than with the slate of ETFs offered by **Bank of Montreal**.

Here are three of my favourites:

BMO Low Volatility Canadian Equity ETF

If you're looking to combat volatility by lowering your portfolio's beta, look to the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), a basket of quality dividend-paying securities that collectively zig when the markets zag.

The ZLB is in my portfolio to dampen some of the downside when the markets inevitably fall into a panic as they did in the latter months of 2018. By no means is the ZLB a "risk-free" safe haven that won't take a hit as stocks collectively fall into the gutter.

The ZLB should be seen as a one-stop-shop to bet on a variety of quality Canadian bond proxies that possess a lower correlation to the broader markets.

The goal of the ZLB is to smoothen the bumps in the road that inevitably happen in the markets over time to keep investors cool in times where one can become vulnerable to making rash sell decisions.

Financial losses can feel like a mortal threat to humans and cause us to react illogically. If you take on half the amount of damage as the broader indices with a security like the ZLB, you'll be less likely to throw in the towel to limit your losses.

Moreover, the ZLB has crushed the TSX Index since its inception and will likely continue to be an outperformer while exhibiting less volatility. In addition to the smoother ride up, you'll also get a growing distribution, which currently yields 2.3%.

BMO Covered Call Canadian Banks ETF

The Canadian banks haven't been pretty darn sluggish over the last three years, with meagre capital gains and continued pessimism from various short-sellers who've been warning investors of their ill-preparedness for the next phase of the credit cycle.

BMO Covered Call Canadian Banks ETF (TSX:ZWB) is a way to profit off the banks while getting a bit of extra premium income as they continue to drag along into the new year. Covered calls essentially swap potential stock price upside for guaranteed premium income upfront.

Should the banks continue to flatline, the ZWB is a more profitable bet than betting on its non-covered-call counterpart.

Given that the Bank of Canada could be following the Fed with rate cuts, we could see net interest margins (NIMs) get slimmer. And with the threat of a Canadian housing market collapse still fresh in the minds of many, I find it hard to believe that Canada's big banks will be rocketing higher anytime soon.

In any case, the ZWB offers Canadians a 5% yield and a means of being cautiously optimistic on the Canadian banks.

Foolish takeaway

There are two ways to better position yourself for a recession that doesn't involve fleeing stocks for cash and bonds.

You can lower your portfolio's beta (or volatility) with the ZLB which will take on "limited damage" in a market-wide plunge or you can bet on a high-dividend-paying asset class (the banks) while getting a bit of extra income from the writing of covered calls with the ZWB.

Both BMO ETFs are a clever way to get ready for what could be a potentially rocky 2020.

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

1. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)
2. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

3. TSX:ZWE (BMO Europe High Dividend Covered Call Hedged to CAD ETF)

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joefrenette