Here's 1 Strong Way to Play a North American Recession

Description

With the China-U.S. trade spat far from at an end it's not beyond the realms of possibility that Canada finds itself facing an economic downturn.

Indeed, this week's political events are showing that our two biggest trade partners are facing not only the effects of the ongoing trade war, with the threat of additional tariffs still looming, but also troubling domestic tensions.

Now throw in a precarious economic situation over in the E.U., with the trade bloc facing recession within its own ranks as well as the grinding uncertainty of the Brexit situation.

With the U.K set to go to the polls to next month and the resultant potential for a second referendum on the country's divorce from Europe, the political and economic landscape could shift profoundly overnight on all fronts.

Fearing a recession? Get ready to buy

If investors feel that a recession is on the way – and there are still signs that a major downturn could still happen – then what they should be doing right now is selling off their riskier assets.

This serves a dual purpose: First of all, cashing in your stocks when they're at peak value is the right way to play the stock market, especially if they were speculative buys.

Second, having cash on hand to buy devalued stocks when a recession hits makes a lot of sense. In summary, then, the best way to play a coming recession is to make a wish list of desirable, currently expensive stocks and a list of speculative holdings you'd like to sell. Now convert those risky assets into cash, wait for the downturn to knock value off of your wish list tickers and snap them up.

If a recession does hit, it makes sense to know how long to plan for it. There's a shorthand among some economists that helps with this: Take the number of years of growth that led up to the correction and multiply by 2.5.

Add a year on and you have a rough guide to the duration of a downturn; in this case, the length of an impending recession would therefore be somewhere in the region of 37 months.

In other words, investors would need to plan for a deep, protracted recession that lasts for around three years. That's a hefty wodge of cash that investors need to keep tucked away, and it's also quite the gulf that stockholders will have to trust their toughest dividend stocks to leap over.

On the flip side, it means that investors should sit on enough liquidity to be able to snap up severely undervalued stocks mid-recession.

A key stock to buy at the moment would be something sturdy and popular such as **Suncor Energy** (TSX:SU)(NYSE:SU). Shelling out a 4% yield, this dividend superstar is a solid long-range play and would suit most investment styles.

Whether packed in a TFSA for reliable tax-free passive income or as part of the backbone of a dependable retirement savings plan, Suncor is a low-risk energy stock which brings peace of mind.

The bottom line

Conservative stocks are the order of the day, and they don't come much more conservative than Suncor. Its mix of wide-moat business operations and solid standing in the defensive energy sector make it a low-risk play for long-term passive income.

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