Warning: The 2020 Recession Could Spark a Market Crash! How to Protect Yourself

Description

With the stock market flirting with all-time highs, it'd be foolish to dismiss the high risk of a recession, which could rear its ugly head as soon as next year. The 2020 U.S. election is sure to bring forth tremendous volatility, so it'd be prudent to position your portfolio in a way that can better handle the big bumps in the road.

You can bet that the dreaded word, *recession*, will be used ad nauseam come the next garden-variety market sell-off, and it'll surely exacerbate the negative move, as it did last holiday season when it seemed like the sky was falling.

And while many claim that the next significant drop will be in 2020, it's important to remember that crashes tend to happen when people expect it least. So, even if you're a bit wary of the state of the economy heading into the new year, it's a mistake to sell all your stocks, because by doing so, you could risk substantial upside in an unforeseen positive event such as a peaceful ending to the U.S.-China trade war.

What's the best way to protect your wealth without cashing out your investment accounts and doubling down on gold, bonds, cash, and cash equivalents?

Hedge your overly cyclical bets. Have a look at the individual holdings in your portfolio and see how they fared during the 2007-08 financial disaster. Did a particular holding shed over 75% of its value, or not fully recover its pre-recession high until 10 years later? Did the company behind the stock cut its dividend, leaving investors holding the bag?

While past performance is no guarantee of things to come in the future, severe underperformance in prior times of economic hardship does not bode well the performance of a said stock come to a future recession. I like to think of cyclical stocks as taking "double damage" in recessions, and, on the flip side, defensive stocks may be seen as taking "reduced damage" due to their lower dependency on the state of the economy.

Instead of buying gold, an unproductive asset that may be seen as the ultimate hedge, it may be worthwhile to look to boring bond proxies like **Hydro One** (TSX:H) with its 3.9%-yielding dividend can hold up (and even increase) when the markets head south in a hurry.

With approximately 99% of operations regulated, Hydro One essentially has a monopoly, which was both a "blessing and a curse." The stock was seen as a safe haven with defensive characteristics similar to bonds, but its monopolistic nature made it subject to regulatory scrutiny, making it hard to land an inorganic growth outlet.

Flat growth is hardly sexy, but Hydro One stock deserves its premium multiple because of its highly defensive characteristics that are hard to match in the world of equities. It's tough to settle for below-average growth if you're looking to batten down the hatches in your portfolio.

Fortunately, with Hydro One, I'd noted in a prior piece that it might be able to improve its odds of landing an approved acquisition if the government of Ontario reduced its sizeable stake in the company further.

In any case, Hydro One is a must-own stock that can reduce your portfolio's damage come the next significant downturn. If you're overweight in cyclicals, Hydro One could be the ultimate defensive bet to keep your portfolio buoyed when the market waters get that much rougher.

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Date
2025/08/26
Date Created
2019/12/04
Author

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