Warning: A 2020 Bear Market Could Hurt the Unprepared

Description

2020 is sure to be a year that's full of uncertainty. It's a U.S. election year, and if the Democrats take back the White House, some pundits see the stock market falling by at least 20%.

That's a scary thought, and although it's tempting to ditch stocks and run for the hills with cash, debt securities, or gold, one could risk missing out on a market melt-up for the ages should the concerns of investors unexpectedly be put to rest.

The next thing you know, a U.S.-China trade deal could be reached, and you'll need to buy back what you sold at higher prices.

So, what's the best way to invest in what could have the potential to be a dangerous year?

Learn from the smart money: Hope for the best, but be prepared for the worst

Take a page out of billionaire hedge fund manager Ray Dalio's book and adopt an all-weather (or risk-parity) approach to investing, so you can still profit big time when the markets go up and not get completely obliterated if the markets go down and the bear comes out of hibernation.

Consider a dirt-cheap defensive dividend stock like **Canadian Utilities** (TSX:CU) that can hold its own at the first signs of economic trouble. In the Financial Crisis, shares of CU fell around 35% from peak to trough (substantially lower than your average stock) and posted a full rebound in about three years.

CU stock sports a well-supported 4.3% dividend yield, which can help further dampen the damages that come with a bear market.

The company is nearing 50 consecutive years of dividend increases, and a 2020 bear market isn't about to stand in the way of the firm and its remarkable milestone. Canadian Utilities is a highly regulated utility that has been through some nasty downturns, and every time, it's recovered, allowing investors to do better than average over prolonged periods of time.

Foolish takeaway

CU stock trades at around 9.4 times EV/EBITDA, and 2.7 times sales, both of which are ridiculously cheap for the calibre of business that you're getting. CU's regulated operations leave very little room for uncertainty, less potential for surprises, a lower dependence on the state of the economy, and a lesser degree of volatility (0.45 beta).

While the bond proxy is unlikely to quintuple your money anytime soon, it will allow you to outperform the market averages over the next decade, bear markets included.

Stay hungry. Stay Foolish.

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