Consumer Debt Continues to Weigh on the Economy: Here's How to Protect Your Portfolio

Description

One of the main concerns of a peaking economy is how it will affect consumers with high debt loads.

Having debt loads that become so large that they are a burden on your personal finances or creating large interest payments that end up substituting for other things you would consume, or worse: potential money you could have saved — those are what can really hurt a consumer.

The problem for the economy happens when a significant portion of consumers have similar and troublesome financial situations.

During the Christmas season, this only becomes exaggerated. Savvy deals created by retailers and the desire to bring joy to family and friends can cause people to overconsume, which can sometimes take a while to pay back.

It's estimated that just under half of consumers are still paying off debt they accumulated last Christmas in a viscous circle that seems like it has no end.

This can be devastating for the individuals that can't get out of the cycle, and as the economy slows and unemployment rises, this could be devastating for both their personal finances and our economy. As unemployment increases, consumers naturally slow their consumption. On top of that, as people reduce their consumption to pay down debt, this also slows GDP growth.

Considering that consumption makes up more than half of our GDP, a small slowdown could be manageable, but a large slowdown that we are due for could be crippling.

In order to prepare your portfolio as best as possible for this inevitable debt-fueled recession, you will want a large part of your portfolio to be exposed to defensive industries as well as safe-haven assets like gold.

One of the best ways of gaining good exposure to gold while only keeping a small portion of your portfolio allocated to it is through **iShares S&P/TSX Global Gold Index ETF** (TSX:XGD).

The XGD is a great ETF for those investors that want exposure to the higher leverage of gold stocks but with mitigated business and execution risk of the individual miners.

Gold stocks have higher leverage to gold because of the debt they employ and because of the natural economics of these mining companies.

If gold is trading for $1,500, and a company has total costs of $1,400, it makes about $100 per ounce that it sells. If gold's price increases to $1,600, though, the price of gold has only appreciated by 6.7%; meanwhile, the company's profits increased by 100%.

That is the gist of the leverage and the reason why gold stocks are so popular and such a high-potential way of gaining exposure to the precious metal.

Gold stocks can be extremely risky though, which is why investing in an ETF that holds a basket of the miners is such an efficient way to gain the exposure that you want.

Some of the top stocks the fund holds include **Newmont Goldcorp** and **Barrick Gold**, two of the mainstay companies in the gold mining universe.

Obviously, if you are mitigating risk, there is a trade-off for that, which includes missing out on some of the potential upside of some of the best-levered companies.

However, XGD is already highly volatile and will reward investors when gold increases, so the marginal increase in upside of a single stock doesn't necessarily make the increased risk worth it.

Consider this: at the end of May, gold started its rally. The precious metal moved from roughly $1,300 to a little over $1,500 then retreated to about the $1,475 level we are seeing today — a roughly 13.5% increase, which is substantial for a precious metal like gold.

XGD however, jumped from about $11.25 to nearly $17 before retreating to its current level of just over $15 — a 33% jump, more than double what gold actually increased.

It's clear XGD is leveraged enough that it will reward shareholders, and it's because of this impressive power of leverage that all investors should have at least a small portion of their portfolios exposed to gold, especially as we move toward a recession.

CATEGORY

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

Date
2025/09/11
Date Created
2019/12/13
Author
danieldacosta