Do This if You’re Expecting a Stock Market Crash in 2020

Description

In the second half of 2019, North American markets have been setting record highs. Driven by surprisingly positive economic news out of the United States and several fed rate cuts, stocks are soaring higher than anyone had anticipated.

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There may be a good reason to worry.

Although the latest U.S. economic figures were pretty good, we still haven’t seen a U.S.-China deal, which would put the ongoing trade concerns to rest. Additionally, the Canadian economy is on life support, shedding 71,000 jobs while growing at just 1.3% in the third quarter.

With all the macro challenges on the horizon, economists are predicting that a recession will hit no later than 2021, according to a poll by the National Association of Business Economics. With a recession will likely come a market crash. If you’re worried about that possibility, here is one move you can make to protect yourself today.

Re-balance your portfolio toward utility stocks

Re-balancing your portfolio toward utility stocks is a solid move to make in anticipation of a market crash.

Strictly speaking, treasury bills and government bonds are the very safest bets you can make ahead of a recession. However, they barely keep pace with inflation, so once the recovery hits, you’re left with assets that deliver barely any gains.

Utility stocks are a good middle ground between cyclical stocks like manufacturers and low-risk/no-reward plays like treasury bills. Because their service is among the last things cash-strapped consumers will cut out of their budgets, they hold their own in recessions. However, they can also perform pretty well during boom times, which makes them overall better than low-risk bonds, which become pretty pointless once the recovery kicks in.

Two great picks

If you're looking for quality Canadian utility stocks to prepare yourself for a market crash, there are two great ones to consider: **Fortis** (TSX:FTS)(NYSE:FTS) and **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN).

Fortis is Canada's largest publicly traded utility, with $53 billion in assets and 3.3 million customers.

Fortis has a lot going for it, but it also faces some serious risk factors.

The stock's best quality is its steady and dependable growth, which has enabled 46 consecutive years of dividend increases without a major increase in the payout ratio. Its worst quality is a heavy amount of debt, which is dangerously close to the company's amount of assets if you take goodwill out of the equation. Taking everything into account, it's a pretty safe bet, but it would be better in a lower interest rate environment.

If you're looking for a utility with more potential upside, Algonquin is your bet.

Over the years, it has beaten Fortis on capital gains, yet it still has a higher dividend yield. This is partially explained by the fact that it's a much smaller company with more room to grow. It also has a lower debt-to-equity ratio than Fortis, which means its business is less impacted by pesky interest charges. Of course, all utilities have fairly high debt levels, and earnings stability is what you're really looking for from these stocks more than anything else. But Algonquin has Fortis beaten on both debt to equity and historical capital gains, which may make it a better overall play. Of course, to be really safe, you could just buy both or even a Canadian utilities ETF.

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1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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