



Buying Stocks in 2020? You'd Better Factor In Recession

Description

The “R” word – it’s back on analysts’ lips after a climate of fear gave way to an extended bull run in 2019’s 11th hour. From three interest rate cuts from the Fed that mirrored similar cuts from central banks the world over to inverted yield curves, last year was characterized by a global financial landscape overshadowed by the seemingly endless Sino-American trade war.

And if anyone thought the situation was going to improve — the phase-one deal and a potentially easier Brexit gave some hope that it would — the first days of 2020 have set them straight. Uncertainty is back with a bang, and the year ahead strewn with possible black swans. As [oil and gold trend higher](#), investors with long memories may recall previous episodes of unrest in the Middle East with uneasy nostalgia.

Rounding up the risk strategies

The greatest threat to a basket of stocks right now is shortsightedness. It could be time to sell consumer cyclicals, autos, retailers, and those overvalued tech stocks you had such high hopes for. And while it’s not the time to buy banks, it’s not the time to sell either. Investors may want to hold gold and set aside cash for bargains, because they could well be coming.

The kinds of stocks to go long and get aggressive with now would be overlooked energy stocks that are still relatively cheap, such as **Northland Power**. Northland is a dividend-paying [play on growth](#) from the global shift away from hydrocarbon power and grants key access to wind and solar energy with a 4.4% yield.

Consumer discretionaries are best avoided in all but small portions at the moment, and investors should proceed cautiously tickers such as **Netflix** and **Amazon**. While Netflix has seen growth around the world, it doesn’t have the kind of cash behind it that big names such as **Disney** and **Apple** command.

Tesla is an example of the kind of stock that low-risk investors should not get into too heavily, as its outlook is clouded by too many unknowns in an increasingly crowded space. Jim Cramer recently

revised his view of Tesla, though auto market forces could put it through the wringer this year.

One of the biggest threats to a personal investment portfolio is myopia. Investors are in trouble when their focus is solely on the immediate, eschewing the hypothetical. The idea that there is no risk from an event simply because it has never happened before is dangerous. With a potentially messy Brexit combined with possible war in the east, what's called for now is a pinch of imagination and a dollop of caution.

The bottom line

While it's reactionary to look at the current situation around the world and assume a recession is on its way, the combination of trade wars, weakening industrial data, a worsening climate crisis, and flared Middle Eastern tensions hardly makes for a reassuring investment environment. However, there are tried-and-tested ways to react, from holding banks to selling industrials to buying beaten-up utilities.

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