Worried Canada's Housing Market will Crash in 2020? Do This!

Description

Last year, Canada's housing market showed vulnerability, as house prices in Vancouver collapsed and mortgage growth slowed to a 17-year low. Earlier in the year, fears of a housing crash made headlines, as investors worried about overheating markets in Canada's biggest cities.

Since then, many housing markets across the country have recovered. However, fears of a housing market crash remain, with house prices increasing far more than income in Canada's largest cities.

In the past decade, house prices have increased by 50% nation-wide, with larger gains seen in the biggest markets.

Such price appreciation has been a boon to homeowners, but raises the question of whether a correction is in order. Especially if government takes action against foreign buyers, we could see condo prices decline far more than we did early last year. If that happens, here's an investing strategy that will prove to have been wise.

Move into utility stocks and ETFs

The **TSX**'s market capitalization is heavily weighted in banks, energy stocks and utilities.

At least one of those sectors is one you don't want to touch in the event of a housing crash. Banks earn a huge percentage of their income from mortgages, which become less lucrative when house prices fall. Energy stocks aren't vulnerable to house price swings, but can be volatile in times when oil prices are weak.

Which leaves us with utilities.

Utility stocks are some of the most dependable equities trading on the **TSX**. With ultra-stable revenue streams, they have proven themselves capable of weathering economic downturns without a scratch.

In 2008 and 2009, when Canada was in a recession, **Fortis Inc** increased its earnings and dividend two years in a row. That's the kind of stock you want to own when house prices start coming down.

A great pick for a Canadian housing market crash

After having touted Fortis's impressive track record of thriving during recessions, I'm now going to change course and recommend a completely different stock:

Algonquin Power & Utilities Corp (TSX:AQN)(NYSE:AQN)

Similar to Fortis, Algonquin is a regulated utility whose revenue stream is fairly safe during recessions and housing market crashes. However, it has another factor going for it that Fortis doesn't have: Almost all of its revenue comes from outside the country.

Algonquin's operations are almost entirely focused on the American mid-West, which means that its earnings are insulated from the effects of a Canadian housing market crash.

While Fortis isn't directly exposed to Canadian housing, it could be indirectly affected by a house price collapse. For example, if Fortis B.C. customers started cutting back on their electricity usage in response to a decline in their home equity, that could hit Fortis' earnings. Algonquin, with its base of operations in the U.S., wouldn't be affected.

Foolish takeaway

In a housing market crash, real estate investors are affected more than anyone else. However, many categories of stocks can be affected as well. Bank stocks, in particular, are hit hard with lower interest income.

With the TSX heavily weighted in banks, it's not a great situation for Canadian investors. Fortunately, you can insulate yourself from weakness in housing by going big on utilities–whether through stocks or ETFs.

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andrewbutton