Protect Your Cash With 2 ETFs for Worried Investors

Description

Contradictions abound in the world of investing, making it hard for the average person to make heads or tails out of what is going on. Last year, all we heard was how the economic world was in dire straits with economies on the verge of collapsing into recession. Central bankers were acting as if the world were in a financial crisis. Interest rate cuts abounded, and quantitative easing was opened, just in case there was a problem.

Yet the entire time the U.S. and Canadian markets were hitting all-time highs. Employment rates remained low, and most signs seemed to point out that things were doing pretty well. It became pretty hard to determine the right course of action with all the noise.

Don’t get me wrong; there are reasons to be concerned. Global debt is ridiculous thanks to a decade of insanely low rates and irresponsible borrowers. The trade situation could be the spark to set off a global recession if it continues to negatively impact economies. All the same, it seems pretty ridiculous to think that giving people the opportunity to borrow more money can help an economy become more secure when there is already too much debt in the system.

So, what is an investor to do? Well, here are three things you can do to prepare your portfolio for investment returns in this uncertain political climate.

Keep your dividends as cash in your TFSA and stay invested

Timing the market is impossible for even the most sophisticated investors. Nevertheless, having some cash on hand for a pullback can be very beneficial. Instead of selling your favourite stocks to raise cash, simply collect your dividends and put them into a cash-equivalent ETF or a high-interest savings account within your TFSA.

The best ETFs for stashing your dividend cash is **Purpose High-Interest Savings ETF** (PSA) for Canadian dollars and **Purpose US Cash ETF** (PSU.U). PSA pays a distribution yield of 2.15% as of this writing and has a management expense ratio (MER) of 0.15%. PSU.U has a yield of 1.73% with an MER of 0.15%. These ETFs pay out their distributions on a monthly basis.

Right now, most stocks are very expensive. Expensive stocks are easy to spot and are the most susceptible to rapid price decreases. However, it can be difficult to predict when a price correction will occur, and there could be a significant amount of time before it happens.

If you have the $69,500 room invested in stocks yielding an average of 4-5%, you will collect between $3,000 and $4,000 in dividends you can spend when that downturn arrives in addition to your future contributions.

The bottom line

We are in a time of enormous risk due to an expensive stock market, low, bubble-inducing interest rates, and loads of government, corporate, and personal debt. That being said, there is no way to know how long before the inevitable collapse.

It could take years before a real downturn happens, so it is a good idea to begin to prepare for the event today. Instead of selling your stocks, begin slowly collecting your dividends today in cash ETFs like PSA and PSU.U. This can help you to have the cash to buy when stocks are at bargain levels while not selling the ones you already own.

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