WARNING: 2 Need-to-Know ETFs to Prep for a Market Crash!

Description

Ray Dalio recently came under the media limelight to warn investors of a correction that could get more painful the higher this market goes. While Dalio's overly optimistic bull call in early 2018 lost him some credibility as a short-term market forecaster, I think investors ought to heed Dalio's words by being prudent, as market sentiment moves farther into overbought territory.

In the popular investment book, *Mastering the Market Cycle*, billionaire investor Howard Marks compares the stock market to a pendulum that continually swings between two extremes: fear and greed — arguably the perfect analogy for explaining the ups and downs of the market.

Right now, it's overextended into greed territory. Although the pendulum can continue swinging to the extreme over the near term, the swing back could have tremendous momentum when the time comes.

While it has been a steady ride up over the past year, one mustn't rule out a sudden double-digit percentage plunge once the buyers exhaust themselves and the sellers dictate the trajectory of the market. As co-founder of the Motley Fool David Gardner once put it: "Stocks always go down faster than they go up, but they always go up more than they go down."

As such, it's only prudent to be cautiously optimistic with an investment mix that won't take "double damage" once the correction finally hits us.

If you're looking to protect yourself from the next correction, you may want to trim profits on your frothiest of holdings. But don't overreact by selling all your stocks, because even though we're in overbought territory, we could, in theory, continue like this for many more months before the correction finally hits.

Instead, consider rotating some of your funds into one of the one-stop-shop ETFs like **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB) or, if you're worried about a dry-up of upward momentum, **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC).

ZLB is a basket of high-quality stocks that not only possess low betas (which implies lower volatility), but each constituent is also selected for their stellar fundamentals, decent valuations, and reliable dividend payouts. Altogether, ZLB sports a 2.4% distribution yield and a five-year beta of 0.5, which both serve to help the ETF to better withstand market corrections, bear markets, crashes, severe sector-wide rotations, and all the sort.

ZLB has also outperformed the TSX Index since its inception and currently sports a one-year Sharpe ratio of 2.4 (higher than one is better), a risk-adjusted performance measure.

For those who'd rather get paid a higher distribution yield to dampen volatility (rather than opting for lower betas), ZWC may be the horse to bet on, especially if you're an investor who needs a passive-income raise.

Unlike ZLB, ZWC hasn't been doing as well of late, as the "covered call" strategy implemented by the ETF caps upside and stunts growth in up markets. Given we've enjoyed an incredible rally, ZWC has underperformed dramatically, but if you're one to believe the markets will fall or stay flat, ZWC is a bet that could crush the markets.

ZWC sports a massive 6.87% yield, thanks to high-yield long positions and the covered call strategy, which trades capital upside for premium income that's added on top of the distributions and dividends paid from ZWC's constituents.

Now, nobody knows where the markets are headed next, but if you're all-in on overly frothy cyclical stocks, it makes sense to trim some of your profits and play a bit of defence with one of BMO's stellar defensive ETFs. For a low fee, BMO makes it ridiculously easy to play defence without compromising too much on the return front.

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1. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)
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Author
joefrenette