



Is the Market at the Top? 3 Steps to Prepare for a Downturn

Description

The global stock markets are making the hair on the back of my neck stand up on end. Day after day, markets go up. Good news or bad, markets go up. Every day we are hitting all-time highs. Up and away it goes, and where it will stop, nobody knows.

It is not the fact that global markets are going up that is worrisome. A rising global market with increasing stock prices is, after all, the very reason to invest in stocks. No, the reason why this market is especially worrisome is that it is built on duct tape, sandbags, and fingers stuck into holes where leaks appear.

Central bankers and governments are trying their best to make the market into a perpetual motion machine. There should be periods of minor economic pain, controlled burns to keep moral hazard in check.

Unfortunately, that is not what we are getting. To keep us from feeling any amount of small, short-term pain, governments are kicking an ever-expanding snowball down the road. Worst of all, individuals are choosing to buy into it. After all, governments would not act this way if we, the public, were not so short-sighted to demand they do so. This will likely end badly, so how can you protect yourself?

Pay down debt

First of all, do not sell everything you own. Market timing is more luck than skill. There is no way to know when the party will end, so don't even try. In fact, the only reason it makes sense to sell your stocks is to pay down any outstanding debt you have. The ones who get crushed in a downturn are those who have large debt loads.

Sell your high-flying winners. Tech stocks like **Lightspeed POS** ([TSX:LSPD](#)) will give you some cash to pay down outstanding lending. The stock has doubled since it debuted on the TSX in the past year, so if you happened to pick it up early, you would be sitting on a nice capital gain. Using those hefty capital gains to strengthen your personal balance sheet can be a great idea.

Since many stocks like this do not have dividends, the only way to get capital back from the stocks is to sell them. Fortunately, capital gains from this high flyer are taxed at a favourable rate, giving you a tax-

efficient way to pay down debt.

Buy gold

A combination of physical gold and gold stocks is a great way to hedge against uncertainty. Probably one of the most reliable indicators of the uncertainty in the world today is the fact that gold has remained relatively high in spite of positive indicators. Lower interest rates have done nothing so far to impact the price of gold. Higher markets have done nothing to impact the price of gold.

Owning a gold miner like **Agnico Eagle Mines** ([TSX:AEM](#))([NYSE:AEM](#)) is a great way to [get exposure](#) to the sector. This company has a yield of greater than 1%, a payout that was recently raised by 40%. This should give you confidence in the company's future. It is also less exposed to geopolitical risk than many other companies, with many of its assets located in Canada and the United States.

Keep your dividend stocks

Hold onto those dividend stocks to get growing income streams through the bad times. If you'd bought companies like **Emera** ([TSX:EMA](#)) in 2018 as I recommended, you would be sitting on a nice capital gain and [a growing yield](#). I would not recommend buying this company at the current price, but it would be a good idea to continue to collect these dividends from the greater-than-4% yield going forward.

This stock has a diversified base of utility assets, largely regulated, which will keep pumping out income through good times and bad.

Foolish takeaway

Although I am not predicting imminent doom, I believe that it is a good time to start getting defensive. Our governments, central banks, and irresponsible everyday borrowers have made global economies very brittle. While we could keep walking this tightrope for a while, it would not take much to push us over the edge. Make sure you do not go over with everyone else.

CATEGORY

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. TSX:AEM (Agnico Eagle Mines Limited)
3. TSX:EMA (Emera Incorporated)

4. TSX:LSPD (Lightspeed Commerce)

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