2 ETFs to Protect Your Capital During This Market Crash

Description

Market crashes can have potentially devastating impacts to your portfolio and finances, especially if you own high-risk stocks, make impulse decisions or aren't properly prepared.

It's important you know how much risk you are taking on, and make sure that the investments you do own are strong enough and can be relied upon to protect your capital in situations like the one we find ourselves in now, with many major markets around the world down 10% in just one week.

Stock picking is already difficult, but it becomes much more complicated when stock prices are falling so rapidly.

An attractive alternative becomes finding high-quality exchange trade funds (ETFs), that should be able to protect your wealth better, especially if you buy an ETF like the **iShares S&P/TSX Global Gold Index ETF** (TSX:XGD) or the **BMO Low Volatility CAD Equity ETF** (TSX: ZLB).

Gold ETF

As most investors are aware, gold is a safe-haven asset — one that will rally when the economy is in a recession and central banks need to increase the money supply to help boost the economy.

This makes gold investments an attractive choice to store some wealth, while the economy and stock markets naturally correct themselves.

Looking back at the last financial crisis, gold grew from a low of roughly $875 in October of 2008, up to more than $2,000 by the middle of July 2011.

What you'll also notice if you look back at the chart from the last major market crash that we had is that gold was actually sold-off initially before its price ended up increasing by more than 100% over the next three years.

The same thing is happening today, as gold stocks have been heavily sold all week, with the XGD down more than 12% this week alone.

This major decrease in price will only be temporary however, creating a major opportunity for investors who are still looking to find safe places to store their capital while waiting for a rebound in the markets and economy.

Low volatility ETF

Another high-quality option for investors to consider, especially as markets become more uncertain is a low volatility ETF like the ZLB.

The ZLB still gives investors exposure to equities on the **TSX**, and is a great way for investors with little funds or who don't want to stock pick to own a diversified portfolio of TSX stocks that should see lower volatility than the broader market.

The fund is composed of large and stable stocks with lower volatility themselves, making it a great choice for investors looking to preserve their portfolio value in bad times, with the trade-off of giving up some capital appreciation potential in good times.

In the last few days, the fund is down considerably less than the TSX, which is no surprise given that it has a beta of just 0.76, showing the resilience of the stocks selected in its portfolio.

A beta of 0.76 means that in theory if the TSX is down by 10%, the ZLB will only be down 7.6% — and that's exactly what we saw this week.

Bottom line

Combining a low volatility ETF with a gold ETF will be the perfect combination to help protect your wealth during this market crash — and give you peace of mind knowing you don't own high risk stocks that could lose you all your capital.

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1. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)
2. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)

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