



3 Tips for Investing During a Recession

Description

I have been firmly in the recession camp for several years. This was a very long expansion, especially for Canadians. We essentially skated through the financial crisis with our banks and housing largely intact. This made Canadians very confident in the fact that we would continue to coast through life, no matter our debt levels or our irresponsible spending. With a recession likely on the way, then, what should investors do?

What not to do

Don't panic. Don't sell everything. The only way I would sell stocks at this point is if you have a margin issue. Otherwise, keep your stocks and hold for the long term. Really, there are only three different options here. Stocks will stay down, which will give you better chances to buy. Stocks will stay at this level, meaning you will be able to bring your average cost down over time. Or, stocks will go up, meaning that you will have a chance to ride these stocks back up in time.

Stay invested where possible

There is no way to know when the pain will stop. Stay in stocks, especially strong ones with great balance sheets and dividends. Companies like **Emera** ([TSX:EMA](#)) have [great dividends](#) of about 5% with great growth. The dividend growth should continue, even in bad times, due to the regulated earnings these companies receive.

Reinvest those dividends to buy great, quality companies as they fall. You might want to consider trading sideways, selling stocks which were weaker when you bought them to buy higher-quality companies

Own some physical gold and silver

I have been a proponent of owning gold stocks in the past, and they did serve their purpose up until a few weeks ago. Right now, though, you should be taking the pullback in gold to buy some in case the financial system experiences difficulties. Gold has likely sold off due to margin calls, not due to a

change for the better in the economy.

As of now, I would prefer to own gold or silver through an ETF like the **Sprott Physical Silver Trust**. The great thing about this trust is that it holds 100% silver bullion without any derivatives or swaps. You can apparently even have your gold and silver delivered to your house if you desire, although I have never personally done so. The management expense ratio is not cheap but not bad either at 0.68%.

Start making a list of cyclical to buy when things return to normal

If a recession is indeed on the horizon, you should start thinking about what to do when it is over. Personally, I would start [looking into companies](#) like **Teck Resources**. It also has a small dividend at 1.85%, although I would not trust that for income, since dividends on commodity stocks are more a courtesy than a rule and can be cut at any time.

I would NOT recommend buying it now. It's way too early into this recession. Wait to see what happens with the economy before you get in too big. If things get really tight, it might be a long time before you can begin to make any money. In fact, you might be sitting on a loss for some time before the economy turns around.

The bottom line

It's not all doom and gloom, however. This too shall pass, and when it does, you should be prepared to buy. Use your cash when you see deals, but don't be in a rush. Get out of any margin (or debt of any kind for that matter) that you have as soon as possible, since debt is horrible in a recession, especially if it is accompanied by deflation.

In the long run, this will be an amazing time to buy stocks, possibly the greatest opportunity of our time. Don't get too caught up in your stocks going down, as long as you have no net debt. Again, I say net debt, not no debt. Interest rates are so low that it can pay to use leverage. You can borrow for less than 3% at present, which is crazy. But keep net liquid cash on hand in case things go wrong.

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