How to Prepare Your Portfolio for a Depression

Description

It’s been a brutal past few weeks. Depending on how the market moves this week, March could end up being the worst month on record since the Great Depression.

That’s a truly terrifying thought. While it’s a good idea to take a page out of Warren Buffett’s playbook by being greedy while others are fearful, it’s also prudent to maintain sufficient liquidity, as it continues drying up in aggregate. Because it’s possible to be *too* greedy at a time like this, especially if it turns out we’re in the early innings of this crisis.

Be patient: There’s no need to “chase” in this market

While it’s tempting to chase the most battered of cyclical stocks out there to get the most value amid the turmoil, it could prove to be a wiser idea to play defence, because there’s always a chance that the pandemic could trigger a depression if worse comes to worst.

And since the bond market is arguably “broken,” you’re going to want to pick your spots very carefully. There are fewer places to hide your money these times of crisis. As such, it’s vital not to invest any of the cash you intend on using over the next few years.

Hope for the best, but be prepared for the worst

We’re in the midst of a biological crisis. Few things in this world are more uncertain and complex than biology. Thus, it’s essential to understand that the future is highly unpredictable and acknowledge the fact that a worst-case scenario could pan out.

A tonne of job losses have already happened, and while many layoffs could prove to be temporary in nature should a vaccine be developed sooner rather than later, one should be prepared for the worst as they hope for the best.

So, that means steering clear of cyclical value traps that could stand to implode further and businesses with unhealthy balance sheets. In times like these, cash is king. So, you're going to want strong balance sheets, and defensive business models that can generate sufficient cash flows through times of severe economic hardship.

Play defence and be wary of unhealthy balance sheets

Ask yourself if a company you're planning on investing in will be able to conduct business during a severe recession or a depression. Consider discount retailers like **Dollarama** or a severely battered "inferior goods" play like **Restaurant Brands International**.

While restaurants have taken on a brunt of the damage, today's valuations are far too low. And once the pandemic is over and we're in a recession (or depression), it will be the fast-food companies that are still alive that could stand to relatively well.

Foolish takeaway

When times are tough, consumers will tighten the belt and look to get the most out of the dollar. Discount retailers and well-capitalized restaurants are two defensive areas of the market that investors should consider if they've got enough dry powder to take advantage of the opportunities that have opened up over the last few weeks.

Stay hungry. Stay Foolish.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/09/11
Date Created
2020/03/23
Author
joefrenette