Market Crash 2.0: Why Guarding Your Portfolio Now Has Become More Vital!

Description

Canadian stocks at large have stayed fairly strong, despite a streak of negative news recently. While the Canadian economy entered a recession this month, the **TSX Index** exhibited a gradual but consistent recovery. Top TSX stocks are up about 30-35% from their 52-week lows in March.

Vaccine hopes and major economies re-opening drove the recent rally. However, this won't be as easy as it seems. Restricted lifting of lockdowns has led to an upsurge in COVID-19 cases. Thus, business activities could take even longer than expected to restart. These uncertainties could weigh on stocks and force investors to pull out of equities in the near future.

A similar set of uncertainties dominated investors in March, which led to one of the worst crashes ever. Fast forward to May; the global economic picture has turned gloomier, while the virus containment is not yet in sight.

Its indeed evident that the impulse will be to sell stocks and go away. However, empirical evidence suggests that staying invested in bull and bear markets have reaped investors significant benefits over the long term.

In such volatile times, investors can consider tweaking portfolio asset allocation in order to minimize risk. For instance, a defensive tilt to your portfolio to weather the challenging times could really go a long way.

There are many defensive stocks that have a low correlation with broad market indexes. Thus, they are more prone to outperform in the market crashes.

Use TSX stocks that have a low correlation with broader markets

One such stock that seems apt to tackle these uncertainties is **Fortis** (TSX:FTS)(NYSE:FTS). It has a relatively low correlation with the TSX Index compared to the top energy and bank stocks. This regulated utility stock has notably outperformed TSX stocks at large in the last 10 years and also during the 2008 financial crisis.

Utility stocks are generally perceived as boring because of their slow stock movements and consistent dividends. However, when it comes to defending your portfolio, utilities stand tall due to these same reasons.

Even during recessions, utilities like Fortis generate stable cash flows that enable stable dividend payments. Fortis has managed to increase its payouts by 7% compounded annually in the last five years. It continued to raise dividends, even during the last financial crisis. This highlights its stability during economic uncertainties.

Thus, Fortis is the stock to hold in any market condition. Even if the stock underperforms, the loss can still be offset to some extent with its handsome dividends.

Market crash: The yellow metal could continue to shine bright

Another alternative that has already outperformed broader markets this year is gold. Investors can consider increasing exposure to this traditional safe haven amid the economic uncertainty. The **iShares Gold Bullion (CAD-hedged) ETF** is one such fund that replicates physical gold prices. Gold generally moves inversely to equities and thus would outperform in bearish markets.

Falling interest rates and increasing uncertainties is a classic combination for gold. Thus, the yellow metal has soared more than 15% so far this year. Importantly, the rally could continue as more and more economies sink into recession.

A firm tilt to defensive assets like non-cyclical stocks and gold from risky growth stocks could play well amid volatile markets. It will not only protect your portfolio from the market crash but will also generate significant returns in the long term.

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