Ray Dalio Warns We Are in a Great Depression: The 2 Best Stocks to Buy Right Now

Description

Ray Dalio sees similarities between the current economic situation and the Great Depression from 1929 to 1932, including a double-digit unemployment rate and 0% interest rates followed by money printing.

Back then, the money printing added more money supply into the system and pushed asset prices higher. Eventually, the stock market recovered and hit new highs, but it took a long time. This time, it'll likely do the same, but, again, it'll likely take years.

More recently, there was a recession triggered by the financial crisis in 2007/08. However, Dalio expects the current economic downturn to be much worse than that recession and closer to something like the Great Depression.

What triggered the last financial crisis was excessive subprime mortgage lending in the U.S. and the bet on ever-higher housing prices. This was unsustainable and eventually led to the bankruptcy of Lehman Brothers, which triggered a tidal wave across global financial markets.

Today, the problem is much more widespread — many businesses are in trouble from COVID-19 disruptions.

It can't be helped, because the virus is so contagious. Even with progressive re-opening of the economy, many businesses can only operate at restricted levels. The foot traffic is also much lower.

Some restaurants have even chosen to stay closed. Others have adopted or expanded their delivery business, perhaps using services like DoorDash and Uber Eats.

Some people have exited their investments before the March market crash and are holding onto a lot of cash. However, Dalio notes that cash is almost always the worst investment, because it loses about 2% a year to inflation. Interest rates are so low that they make bonds uncompelling as well. So, stocks should be a much better long-term investment.

Dalio acknowledges that it's tough to invest in today's environment but encourages investors to diversify well across asset classes, countries, and currencies in a balanced way.

What are the best stocks to invest in?

In today's market, investors should prioritize their money in these two types of stocks — businesses that pay you well and stocks that are growing fast.

One way investors can earn a decent return in an economy that's in a contraction phase is by investing in stocks that pay them well. Importantly, the payouts should be sustainable, and the stocks should be reasonably valued.

One example is utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS) and **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP). They rebounded in a flash during the March market crash and have held up pretty well since. The stocks are meaningfully off from their highs and currently trade at reasonable valuations.

Importantly, Fortis and BIP stock pay out a meaningful portion of their profits as dividends and are capable of increasing their payouts to shareholders year after year.

In the past five years, Fortis stock increased its dividend at a compound annual growth rate (CAGR) of 7.4%. In the same period, BIP's cash distribution climbed at a CAGR of 9.4%.

Over the next few years, Fortis and BIP can continue increasing their dividends annually by roughly 6% and 7%, respectively. Right now, their yields are 3.6% and 4.7%, respectively.

You'll also want to explore stocks that are growing very fast but are trading at palatable valuations. These growth stocks could be innovating, taking market share, or operating in an industry that has a growing pie.

For example, lately, the stocks of Chinese giants like **Alibaba** and **Tencent** have surged. They're within their fair valuations today and offer geographic diversification in an economy that potentially provides greater long-term growth.

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Date
2025/08/29
Date Created
2020/07/14
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