Must-Know: These 2 TSX Stocks Could Recession-Proof Your Portfolio

Description

Are you worried about the looming recession and the resulting stock market crash? There are many indicators that the economy could fall into recession once the government eases its

Should you invest in gold?

Many investors, including Warren Buffett, don't consider gold to be a good investment, as it does not produce anything. But it can recession-proof your portfolio. In the 2009 Financial Crisis, gold outperformed the stock market, as investors lost confidence in the financial system. Between October 2008 and September 2011, the gold price doubled from $879 to $1,787, while the **S&P/TSX Composite Index** fell by 4.8%. During this period, the stock market crashed twice.

However, the coronavirus crisis is slightly different. While the economy is contracting, the stock market is growing on the back of the fiscal stimulus and low interest rates. At the same time, gold prices are also rising. Gold price surged 20% from its March low on the back of uncertainty around the pandemic and fears of a looming recession.

Banks and REITs have deferred loans and rent repayments for four to six months as part of the government emergency benefit. As the deferral period ends, banks and REITs expect billions of dollars in default. The top six Canadian banks have increased their provision for losses to $9.07 billion in the third quarter of fiscal 2020 from $6.76 billion in the second quarter.

If the defaults rise beyond expectations, securing capital will become difficult. Companies that are unable to manage their debt will file for bankruptcy. All of this will lead to a recession. It is difficult to say the magnitude of the crisis, as there are many moving variables. But if this recession strikes, it will impact the stock market, as money won't be easily available. At such times, gold can protect your portfolio from falling.

Two stocks to have in your portfolio during a recession

Gold is the most traditional form of wealth, and there are many ways to invest in it. You need not buy physical gold and store it in a vault. You can buy gold ETFs, gold mining stocks, and maybe even gold futures and options if you are willing to take risks. I would suggest buying a gold mining stock that also pays dividends. This way, you can benefit from capital appreciation and dividends.

It's a good idea to invest in the world's largest gold miners. Canadian mining companies **Barrick Gold** (TSX:ABX)(NYSE:GOLD) and **Kinross Gold** (TSX:K)(NYSE:KGC) are among the top five gold miners in the world, producing 140.8 tonnes and 77 tonnes of gold, respectively.

Barrick Gold stock fell 18% in the March sell-off but has surged 72% since then, while the TSX Composite Index surged 44%. The stock surged on the back of rising gold prices, which increased its second-quarter revenue by 48% year over year, even when gold production fell by 15% due to lockdowns. Last month, Warren Buffett's **Berkshire Hathaway** purchased US$564 million worth of Barrick Gold shares, which is less than 1% of its portfolio of

Kinross Gold is more volatile than Barrick Gold. Kinross stock fell 37.5% in March and surged 134% since then. Both stocks are trading near their eight-year high. Should you buy these stocks at this valuation?

How to recession-proof your portfolio

Gold stocks have the potential to grow this year and next year, until the economy recovers and there is clarity around the pandemic situation. Yes, the entry cost of

Now, don't go overboard investing in gold stocks. Those who invested in Kinross Gold and Barrick Gold during their 2010 highs are still out of money. Financial advisors generally suggest investing 1-5% of your overall portfolio in gold stocks. Use it as a hedging instrument rather than an investment that can grow your wealth.

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