Market Crash 2.0: How to Create a Recession-Proof Portfolio

Description

The earnings season is almost complete and investors have been reminded of the potential troubles that lay ahead. Several companies have not provided an outlook for the last quarter of 2020 or even for 2021. The uncertainties impacting the global economy will continue to weigh on companies on the **TSX.**

This also means we are on the cusp of another stock market crash that may even be worse than the one experienced in March. While major indexes fell over 35% in less than a month earlier this year, the snap-back rally driven by tech stocks was equally unprecedented.

Why should investors brace for a market crash?

The tech sector is absurdly overvalued while there is also a threat of a second COVID-19 wave of infections. The markets are trading at record highs but are not supported by economic fundamentals.

Experts are not sure what’s driving the stock market rally as gross domestic product growth is estimated to fall drastically in 2020. Yes, the COVID-19 vaccine development has given investors hope but they still need to approved, manufactured, and distributed which might take several months.

The demand for companies in the airline, entertainment, energy, retail, and hospitality sectors will continue to remain subdued in the near-term. This suggests discretionary consumer spending will also be sluggish.

While it is impossible to predict or time a market crash, you can take measures to protect your investment capital and focus on creating a recession-proof portfolio. It’s quite clear that Canada’s economy is not in sync with the stock market, suggesting that there’s an elevated risk for equity investors.

Invest in utility companies such as Fortis

Investors should consider investing in defensive companies such as **Fortis** (TSX:FTS)(NYSE:FTS) with a strong balance sheet and survived multiple recessions. Fortis is a blue-chip company that has created massive wealth for long-term investors.

Utility companies provide essential services and offer reliable protection for investors in the event of a market crash. Fortis has increased its dividend payout for 47 consecutive years and has improved the financial position of several investors.

It is not a growth stock that will crush market returns. Rather, Fortis is ideal for the low-risk investor who is looking to build long-term wealth at a steady pace. The company has time and again showcased its ability to weather a harsh economic environment due to its regulated business that allows Fortis to generate steady cash flows across business cycles.

Fortis owns and operates a portfolio of power generation, natural gas distribution and electrical transmission businesses in Canada, the U.S., and the Caribbean. No matter the state of the economy households and businesses will need electricity and natural gas services.

The Foolish takeaway

Fortis is just one top recession-proof stock in Canada that has an attractive forward yield of 3.82%. You can use this company as a starting point for your research and identify similar stocks to create an all-weather portfolio.

Fortis stock is up 44% in the last five years close to 750% in the last two and a half decades. If you account for its dividend yield, annual returns are over 11% since 1995.

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