Recession-Proof Your Portfolio With These Stocks

Description

Motley Fool investors may have noticed that the *recession* seems to be inching its way into headlines lately. And for good reason. Shares continue to fall since highs in February, marking perhaps the beginning of an average 14-month-long decline in the economy.

Today, let's go over what exactly happens during a recession and how you can protect yourself during one.

What happens in a recession?

First off, a recession is a normal part of any economic cycle. Recessions tend to occur every decade or so, and one was incredibly overdue for us lucky investors. The difference between a dip in the markets and a recession is, it's a widespread phenomenon for an extended period of time that affects the economy around the world.

So, what drops? Practically everything, but riskier growth stocks tend to go first. That's what we've seen with companies in the tech sector specifically this time around. So, if you have profits you may need, it's a good time to cash out and put them elsewhere.

And that's what you need to figure out next.

Where to seek protection

During a recession, large companies with large, steady cash flows and dividends tend to outperform the rest of the market. Gold, commodities, and other companies that remain necessary even in a downturn will also see appreciation.

So, these are great areas to seek protection during a recession. But that doesn't necessarily mean you should move everything you have into something completely conservative. Long term, these can be companies that produce fewer returns. So, it's important to continue focusing on a diverse portfolio to help create profits that will outlast the recession and a recovery.

Can you time a recession?

No. Absolutely not. While you can potentially predict that a recession is coming, predicting a market bottom is all but impossible. An inverted yield curve has been the best way to predict whether a recession is on the way, but even that isn't 100% accurate. In fact, this can lead to an overreaction in the markets, causing further drops before a market bottom even arrives.

Instead, it's more important to have your eye on certain equities, ETFs, bonds, and other investments that you think are worth your long-term attention. Then if shares drop by 10%, for example, then that could be your chance to jump in for a significant bump down the line.

Could shares drop further? Yes, and definitely in a recession. But, long term, you'll still be getting a deal and could have dividends to look forward to as well.

An option to consider

The Big Six banks are great options for both protection and value during a recession. These are large, profitable companies that have credit loan losses for just this occasion. For my choice, I would recommend **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to Motley Fool investors to recession-proof their portfolios.

CIBC stock is a great option trading at 9.85 times earnings, so you get significant value. Furthermore, it has the highest yield of the Big Six banks at 4.53%. So, you get large payments while you wait for a recovery. And, of course, it's recovered to pre-crash prices within a year over the last several recessions and economic downturns.

Foolish takeaway

It's impossible to time a recession and market bottom. But it's not impossible to prepare ahead of time. If you've been involved with riskier assets, you may want to consider at least selling some stake and diversifying. You can always buy it back later in that case.

Then add some strong, large companies with stable dividends and cash flows that will help Motley Fool investors through these troubled times. A stock like CIBC will help you during and after a recession and provides significant long-term income to consider.

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