New Investors: How to Prepare for a Recession

Description

Economists believe there's an increased likelihood of a recession happening globally over the next 24 months. Whether that materializes or not, it's a part of the cycle, and eventually, we'll run into a recession, which often pairs with a market correction. So, recessions and market corrections are both something that all investors need to be comfortable with, accepting it as a part of the nature and stock investing.

How can new investors better prepare for a recession? Buy great businesses, be diversified, and stay focused on the long term.

Buy great businesses

Stocks driven by great businesses can provide satisfactory long-term returns with below-average risk. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is a wonderful business. In this high oil price environment, railways like CN Rail remain the lowest-cost method to transport goods, especially for long distances.

In the past 15 years, CN stock compounded its earnings and dividend per share by 8.7% and 14.6% per year, respectively. The result was annualized total returns of approximately 13%, which outperformed the market returns by about 4% in the period.

At about $145 per share at writing, Canadian National Railway stock trades at a discount of about 11% to the analyst consensus price target. So, the stock is a reasonable buy. Its yield of just over 2% also adds to returns.

Be diversified

Other than CN Rail, new investors should also consider great businesses in other sectors, such as utility **Brookfield Infrastructure** (TSX:BIP.UN)(NYSE:BIP) and big Canadian bank **Royal Bank of Canada**.

BIP invests in a diversified portfolio of quality infrastructure assets around the globe. It has utilities like electricity distribution and transmission lines, natural gas pipelines, and smart metres. It also has transportation infrastructure like railroads and toll roads. Furthermore, BIP has midstream and data infrastructure assets.

In any environment, it knows where to allocate capital for the best risk-adjusted returns. It also has operational expertise. So, it can improve its acquired assets to drive higher returns. For example, it has a recycling program that regularly reviews and sells mature assets to redeploy the capital into better investment opportunities.

In the last 10 years, BIP stock has delivered annualized returns of about 17%. In the past decade, the dividend stock ended up increasing its cash distribution by close to 10% per year. Its returns and dividend growth have been supported by strong fundamentals in the growing business. The stock yields over 3.4% today, and management is committed to increasing its cash distribution safely by 5-9% per year going forward.

Stay focused on the long term

Even the best businesses can't outperform every year. However, great businesses will recover in time. For example, during recessions, banks like Royal Bank (and their underlying stocks) perform poorly. However, those are the times to back up the truck on RBC stock and other great businesses!

Stay focused on the long-term investment potential. Through a basket of stocks driven by wonderful businesses, new investors should expect satisfactory returns in the long run. When they experience bumps during harsh times like recessions, investors should understand that the situation is temporary and that it's the right thing to do to use excess cash to continue buying great businesses during corrections.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:CNI (Canadian National Railway Company)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:CNR (Canadian National Railway Company)

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