



## Canadian Investors: How to Prepare for the Next Recession

### Description

Rumours are swirling that a global recession might be imminent. Factors such as inflation, supply chain challenges, geopolitical conflict, and rising interest rates, could all lead to a slowdown in the economy and the stock market. While this is cause for concern, I don't think investors should worry.

### A recession is nothing to fear; it's just a part of the market cycle

A recession is a natural part of the economic and stock market cycle. Over the past several years, the stock market overheated. There were signs of excess, speculation, and gambling across the market. All I have to say is "**GameStop**" or "NFTs" (non-fungible tokens), and you will likely know what I am talking about.

A reversion to more normal growth, valuations, and market activity is a healthy thing. However, getting there could be a bumpy process. The market often overswings, both to the upside and the downside. Consequently, [the bear market could persist](#) for some time further.

### How to prepare for a recession

If you want to prepare for a recession, there are several things you can do to not only maintain your financial health but also grow your wealth.

#### Hold extra cash

Firstly, hold extra cash/savings than you would normally. Having excess cash is a great buffer in case your economic circumstances were to swiftly change. Well-known Motley Fool contributor Brian Feroldi recently tweeted, "My favorite margin of safety: [six] months of living expenses in cash." Having spare cash provides enormous financial flexibility, especially when finances get tight.

The other reason to hold cash is to be opportunistic in investing. It is often recessions and [market declines](#)

that enable investors to buy stocks when valuations are very cheap. You only get these opportunities so often, so having some spare cash to deploy into the market is a great way to maximize long-term returns.

## Buy recession-resilient stocks

Secondly, investors can make their investment portfolio defensive. A good asset to own is dividend stocks in times of market volatility. Even if there is downside in the market, investors still collect a cash return from their dividends. I particularly like dividend-growth stocks.

## Brookfield Infrastructure: A solid dividend-growth stock

One dividend-growth stock that could be particularly resilient through a recession is **Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))([NYSE:BIP](#)). First, it has a diversified portfolio both geographically and by asset. Across the world, it owns transmission lines, pipelines, railroads, ports, midstream assets, data centres, and cell towers

Second, these are very defensive, essential assets. They are largely contracted or regulated. BIP earns relatively reliable streams of cash flow, regardless of the economy. However, when inflation is soaring, this stock benefits.

It gets better returns when it has more volumes or traffic through its assets. Likewise, its businesses do well when commodity prices are strong. Lastly, over 70% of its assets have inflation-indexed contracts. That means annually, it can adjust its pricing based on the inflation rate at the time.

This business model has supported 9% annual average dividend growth since inception. BIP stock only pays a 3.5% dividend yield. However, if it can sustain its cash flow and dividend growth, your yield on cost could be significantly higher in the future.

## The Foolish takeaway

Nobody can predict with surety if a recession will hit. However, investors can take a cautious approach during these uncertain times. Holding extra cash provides significant flexibility and owning defensive stocks helps ensure investors capture a regular inflation-hedged cash return.

### CATEGORY

1. Investing
2. Stocks for Beginners

### TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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