



All You Need to Know About Investing in a Recession

Description

Fears of a recession are now materializing. The United States witnessed [the second quarter](#) of negative gross domestic product (GDP) growth while inflation rose to 9.1% in June. Data may indicate a recession is coming, but most of us know it's already here. Before it becomes official, now is the time to prepare yourself financially.

Four things to consider when investing during a recession

A recession results when business is weak, unemployment rises, real income falls, and the flow of goods and services in the economy slows. At times like this, it's important to look on the bright side and realize that it's during a recession you can find [value stocks](#).

Ensure your portfolio ticks these four boxes:

- Invest in stocks that can maximize long-term returns
- Create a source of passive income
- Reduce your downside by exiting high-risk stocks
- Diversify into beaten-down stocks that could rally in a recovery

When looking for stocks, ensure the company is profitable, and has low debt, a positive cash flow, a strong balance sheet, and long-term demand.

A stock that can maximize long-term returns

Constellation Software ([TSX:CSU](#)) is demonstrating a long-term growth trend. It grows by acquiring small vertical-specific software companies that enjoy stable cash flow from their mission-critical products. A market downturn provides Constellation with an opportunity to buy good companies at attractive valuations. When the economy recovers, revenue and cash flow growth resulting from acquisitions will enable Constellation to bounce back.

Constellation's \$1.13 billion in cash reserves and \$975 million in levered free cash flow provide liquidity to service its long-term debt of \$1.57 billion and acquire new companies. The stock witnessed several crises where it fell by double-digits but it grew in the long-term.

Long-term growth was recently evidenced by the fact that Constellation climbed back up close to its pandemic high, ahead of its earnings, while other tech stocks continue to trade 20-70% below pandemic highs.

This stock is currently trading at a high price, but you can buy the dip and maximize long-term returns.

A stock for passive income during a recession

The next stock worth investing in ahead of a recession is a dividend stock. **SmartCentres REIT** ([TSX:SRU.UN](#)) has a 6.4% distribution yield that is paid in 12 monthly installments over the year. This REIT has survived the pandemic and the 2009 recession without a distribution cut. It could maintain this record in the looming recession because most of its tenant base consists of essential retailers like **Walmart**. Its leasing term with Walmart will keep rental income flowing in, even during a recession.

The REIT fell 12% in the 2022 market downturn, creating an opportunity to lock in a higher passive monthly income for the long-term. This income can be helpful during a recession, and the stock could return to its average price when the market recovers, creating a potential upside.

A high-risk stock to sell

Air Canada ([TSX:AC](#)) is one stock to avoid in a recession. The airline survived the pandemic blow thanks to the government's generous stimulus package. But, the recession is too much for this airline to handle. Its net debt is \$7 billion, and its interest income plus high operating costs would make it difficult to come out of losses.

Air Canada has travel demand, but it's having trouble keeping up due to the reduced capacity that resulted from the pandemic. In an uncertain economic environment, the fixed costs associated with increasing capacity simply aren't feasible, and the airline may risk bankruptcy if the recession deepens. This is a stock to sell now before the recession hits.

A beaten-down ETF that could rally in an economic recovery

Individual stocks are risky, but an index fund will rally when the economy recovers. The **Horizons S&P/TSX 60 Index ETF** ([TSX:HXT.U](#)) tracks the top 60 stocks on the TSX by market cap. Buying the dip can help secure your position in the recovery rally.

We're in uncertain times, but these investing tips can help your portfolio thrive during a recession.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:AC (Air Canada)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:HXT (Horizons S&p/tsx 60 Index ETF)
5. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. agraff
2. pujatayal

Category

1. Investing
2. Stocks for Beginners

Date

2025/07/20

Date Created

2022/08/02

Author

pujatayal

default watermark

default watermark