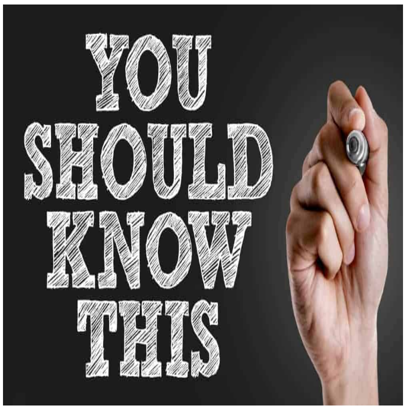

How to Prepare Your Portfolio for a Potential Recession in 2023

Description

When investors hear about a potential recession in 2023, it's natural to want to avoid it. However, as you invest for the long haul and experience numerous recessions and stock market selloffs, it quickly becomes clear that these are the best opportunities to buy high-quality stocks while they trade undervalued.

Furthermore, while a recession has the potential to be devastating, not all recessions are equally disastrous. All a recession means is that the economy's growth has temporarily stalled. A significant decline in gross domestic product (GDP) could cause a massive strain on the economy. But a slight dip in GDP growth, while also classified as a recession, won't nearly have the same devastating effects.

Furthermore, recessions don't last forever, and governments and central banks can often help turn the economy around in just a few quarters.

While we can't ignore the fact that there's potential for a recession either later this year or in 2023, we also don't have to worry too much about its impacts on our portfolios, particularly if we're investing for the long term.

With that being said, though, there are a few measures you can take to ensure that should a recession come, its negative impacts will be limited, and you have the potential to take advantage of the situation.

Here are a few measures to prepare your portfolio for a potential recession in 2023.

Ensure your stocks are high-quality and excellent long-term investments

Recessions typically don't last too long, but there's always a possibility they can be prolonged. Furthermore, they can cause stock markets to sell off and many companies to lose market value.

Therefore, the first thing to do to prepare your portfolio for a potential recession in 2023 is to ensure that any stocks you hold are stocks you're comfortable owning for years.

The best stocks to consider are ones with defensive and reliable businesses, solid financials, and that pay attractive dividends.

Since it's possible that these stocks can trade undervalued for some time, it's essential that you can commit to owning them for years, because the last thing you want to do is sell these investments in the middle of a recession and bear market, where they are trading at dirt-cheap valuations.

Make sure you have adequate cash before a potential recession starts in 2023

In addition to ensuring that your portfolio holdings are high-quality and robust businesses, it's also crucial to ensure you have an adequate cash position.

That doesn't mean you should rush to sell stocks now, especially after many equities have already lost a tonne of value in the last few months.

However, ensuring you have enough cash for non-investing reasons, such as an emergency fund, is crucial. I'd also look to raise cash by selling highly risky businesses you don't have confidence holding through a recession.

And, of course, with more stock market selloffs possible, I would be patient with any savings you add to your portfolio over the next few quarters before putting them to work. There are certainly already a lot of attractive deals in the market, but there could be even more opportunities for investors if the selloff continues.

Therefore, ensuring you have an adequate level of cash — both in your portfolio and in your bank accounts — will be crucial to preparing for a potential recession in 2023.

If you need more defence, I'd look to buy these stocks now

Lastly, if you already have a tonne of cash or lack highly defensive assets, you may want to consider recession-resistant stocks now. For example, a utility stock like **Emera** (TSX:EMA) is an ideal candidate in these environments.

First, Emera's business operations, providing gas and electricity utilities, are essential and hardly see any change in demand whether the economy is booming or not. In addition, governments regulate utilities, which helps to reduce risk even further.

Moreover, these stocks are some of the least-volatile investments you can buy, meaning they'll protect your capital well, even if the market is selling off. Plus, they return attractive passive income to investors.

If you're looking to prepare for a potential recession on the horizon, it's crucial to own highly safe stocks such as Emera.

CATEGORY

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