



How to Invest in a Recession: 2 Opportunistic Stocks to Buy the Dip

Description

The World Bank has once again [warned](#) of a global recession in 2023 if the supply chain disruption and shortage of labour don't subside. Investment veterans believe that the 2023 recession won't be as big as the dot.com bubble or the 2009 crisis. But every recession brings with it new scenarios.

The energy supply chain is disrupted because of the Russia-Ukraine war. If the war continues, the supply disruption could extend to semiconductors and other sectors. Under this scenario, the supply chain disruption could keep prices elevated even if interest rate hikes slow demand.

How to invest in a recession

Even though the recession is not yet visible in numbers, many households are feeling the pressure. It is time to prepare for the recession before it strikes. Firstly, avoid panic selling if the companies in your portfolio are profitable, have low debt, and long-term demand. Secondly, use the dollar-cost averaging method to invest in stocks.

The stock market could see a steep decline throughout the recession. It is difficult to say when the market will bottom out. Thus, a good strategy is to identify the stocks you want to invest in and invest a small amount regularly (like \$100 a month per stock). If the stock continues to fall, so will your average cost. When these stocks rally during an economic recovery, the lower cost from dollar-cost averaging can enhance your returns.

Now for the next question, which stocks should you invest in during a recession?

Defensive dividend stocks

The stock market will fall, but defensive stocks could rebound. Defensive stocks are companies whose products or services you buy despite a recession, like electricity, utility, food, and healthcare. These sectors are not significantly affected by economic cycles, but instead if their stocks fall, they bounce back. The idea behind defensive investing is to manage the risk of losing money.

Apart from defensive stocks, dividend aristocrats are good investments as they can lock in [higher dividend yields](#) in a market dip. In the Canadian stock market, utility stocks that are good dividend stocks.

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#)) provides regulated electricity, water, and natural gas utility services to over a million customers. The electricity demand will continue to grow with the electric vehicle (EV) boom and internet of things (IoT) proliferation. This utility is well-positioned to grow by increasing its capacity. It has several power generation projects under construction, which will add new income streams for Algonquin.

Algonquin uses the money from utility bills to pay dividends. It has increased its dividend at a 12% CAGR in the last 10 years. The utility could continue growing dividends even in a recession, probably at a slower rate as the construction of new projects could slow.

No stock is completely immune to a recession. Algonquin's stock dipped 14% and is trading closer to its March 2020 dip. But this dip has created an opportunity to lock in a 5.36% dividend yield. Electricity is not going out of business, and Algonquin's fundamentals remain strong. Dollar-cost averaging could help you reduce costs and enhance your growth when the stock rebounds.

Diversify into different asset classes during a recession

Real estate is always a good investment in a dip. It is not that REITs are unaffected by a recession. But this asset class has a higher probability of rebounding with the economy. Moreover, a [REIT](#) is under obligation to distribute a significant portion of its rental income to shareholders as they enjoy the tax status of a trust. In the worst-case scenario, a REIT could cut its distributions, as **RioCan** did during the pandemic. But if a REIT cuts distributions, its stock price would fall, and dollar-cost averaging will reduce your cost.

For the 2023 recession, **Choice Properties REIT** ([TSX:CHP.UN](#)) is a sound investment as it earns 57.5% rental income from **Loblaw** (a defensive stock). Choice can give you asset class diversification and the resilience of a defensive stock. Its stock price has slipped 14% since April and could fall further during a recession. You can lock in a higher distribution yield throughout the downfall and set yourself up for long-term passive income.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

3. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)

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