[Protecting Your Portfolio]

June 11, 2019

Signs of a possible slowing global economy and the potential impact that it could have, has many of my clients concerned about the next recession. The U.S. economy hasn't been in a recession since the last one ended in 2009. While most economists don't see that happening in the near future, it will happen sooner or later. Now might be the time for us to see how resilient your portfolio would be to a U.S. recession and the steps you should take.

Here is what we can do to be more defensive.

1. Increase our cash holdings – This does not mean to sell out and liquidate your holdings. What I am saying is that with so many headwinds capable of pressuring stock prices down over the near term, let's keep some cash available to go shopping for our favorite companies when they go on sale.
2. High-Quality Dividend Stocks – Look to add high quality companies that have succeeded in the past and should continue to do so in the future. These companies generally have a high return on equity, pay high dividends and are not subject to market cycles. The dividend income streams may offset some of the share price decline that is inevitable and when the market resumes its upward trajectory, can make a big difference in your rate of return coming out of a recession. I have 2 Exchange Traded Funds (ETFs) that I have scouted out specifically for this purpose. Please call me to discuss them and their suitability for your portfolio.
3. Preferred Stocks – These stocks are a hybrid having both equity and debt components. They are interest rate sensitive so that means if rates go up their prices go down and vice versa. However, they pay out a specific percentage and the dividend gets better tax treatment with the dividend tax credit then what you would get with a bond or GIC that pays the same rate. These investments are not always as liquid as common stock, and should be considered as long term holds for the steady income they pay. I prefer stocks issued by banks, life insurance companies and utilities.
4. Emerging Markets – In a recession, long-term holdings should still be focused for growth, with some exposure outside the U.S. For this I prefer the emerging markets for the younger demographics and faster gross domestic product growth rates, which likely won't change through recessions. Compared with long-term U.S. market valuations, emerging markets remain cheap. Lower valuation means higher return expectations. The price-earnings ratio for the MSCI Emerging Markets Index (EEM), which captures large and mid-cap representations across 24 emerging market countries, was 11.58 as of May 30th. That is good value.
5. Commodities -Commodities are often uncorrelated to stocks, and a small allocation to a diversified commodity ETF, such as Invesco DB Commodity Index Tracking (DBC) can add portfolio diversification. Rising prices may cause recessions, and this inflationary effect can support real assets like commodities while hurting stocks. Commodities may also fall, but normally not as much as stocks. Your commodities allocation shouldn't be more than about 5 percent of the total portfolio.

In Conclusion

We have been taking profits on some of our overweight positions, so you may have noticed the cash and cash equivalent holdings have been on the rise. This is all part of preparing for the next cycle in the economy. I do not see a recession coming anytime soon but the increasing hostilities in the US – China trade negotiations could be the kind of event that disrupts the economy.

Please call me to discuss how we will prepare you to manage your investments in turbulent economic cycles.

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