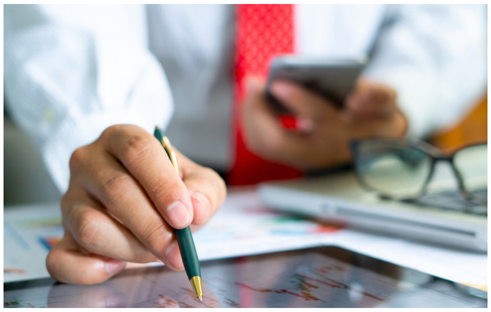
U.S. News & WORLD REPORT

ALSO PUBLISHED IN…

YAHOO! FINANCE

HOW TO PREP YOUR PORTFOLIO IN A RECESSION

Here is how to prepare your financial portfolio to get through the recession.



By: Paulina Likos - April 1, 2020

After a decade of steady growth, the economic cycle is due for a reversal, with concerns of a recession.

Investors who have enjoyed rising asset prices are also getting antsy and fear an investment downturn as coronavirus concerns continue to weigh heavily on the economy. For anxious investors, now is a good time to review how to recession-proof your investments.

What Is a Recession?

Recession is a term that describes a specific economic state that experiences declining activity over a specific period of time. There are several factors to monitor that measure the possibility of a recession and, when combined, can tell the story of how stable our economy is in a given period of time.

According to the National Bureau of Economic Research, a recession is a period of falling economic activity spread across the economy lasting more than a few months normally seen in real growth domestic product, real income, employment, industrial production and wholesale retail sales. A recession is declared after the fact by experts at this private economic research organization.

When the economic indicators that dropped begin to rise again, the economy is said to be recovering. In the early stages of recovery, economic activity is usually below normal and can last like so into expansion. Ultimately, recessions are an inevitable part of the natural business cycle and are followed by economic strength.

Is a Recession Upon Us?

Recession talk is everywhere and experts are saying we may already be there. "U.S. equities fell into bear market territory for the first time in more than 11 years, plunging a dizzying 32% from record highs registered just one month ago and ending the longest bull market in history," says George Mateyo, chief investment officer at KeyCorp in Cleveland, Ohio.

The "coronavirus crash" has been one of the swiftest peak-to-trough market declines ever, and the hibernating bear has come roaring back in a major way."

"Stay disciplined and seek opportunities to upgrade portfolios," Mateyo recommends. "Don't succumb to panic."

As the spread of the coronavirus pandemic continues to grow, there is an expectation that unemployment will increase, consumer sentiment and purchasing power will diminish and federal and local government stay-at-home mandates will stifle business growth. In the face of these estimates, here are some tips to help you take control of your investments in the wake of a recession.

What to Invest In During a Recession?

A fraction of your portfolio should be allocated to dividend-paying stocks. Receiving a consistent flow of cash or stock payments can provide investors stability during an economic downturn. That way, when asset prices fall, the investor isn't selling the shares at a market bottom.

Inflation is usually followed by a recession, so a solid investment to combat inflation is in U.S. Treasurys. U.S. Treasury bills, bonds or notes are among the safest investments since these assets are backed by the full faith of the U.S. government – meaning it is guaranteed that you will get the full return on your investment as long as the investment is held until its maturity date. These assets are popular and likely to rise during times of economic uncertainty.

Buying U.S. Treasurys is easy after creating an account at the TreasuryDirect website. If you're looking for a fund to invest in the U.S. dollar, you can choose from the following funds: Invesco DB US Dollar Index Bullish (ticker: UUP) or Invesco DB US Dollar Bearish (UDN) funds; both funds carry an expense ratio of 0.75%.

Assets that are less correlated with typical stocks and bonds may be worth considering during times of uncertainty, says Chris Rawley, CEO of Harvest Returns in Fort Worth, Texas. Harvest Returns is an online platform for agriculture-based investments.

Several assets with low stock and bond correlations are gold and certain commodities such as timber. Other less correlated assets include the real estate niche.

With real estate crowdfunding, hypermarket segmentation is available. Investors can choose their property type and geographic region when investing in real estate. EquityMultiple is one example of a real estate crowdfunding. Fundrise and Groundfloor open targeted real estate investing to nonaccredited investors as well. For easier real estate investing access, real estate investment trusts, known as REITs, come in many varieties and span several sectors.

The health care and senior-living sector, for instance, might be more stable during turbulent economic times. Investors can tap the real estate health care and senior-living markets with Physicians Realty Trust (DOC) and Senior Housing Properties Trust (SNH). A broad-based, low-fee REIT such as the Vanguard REIT ETF (VNQ) diversifies across many sectors, including health care, hotels, industrial, office, development, residential and specialized REITs.

For equity investors, recession-proof stocks are those more likely to hold up during market turmoil. Health, garbage and basic consumer products could fit the bill. Sample recession-proof stocks include Walmart (WMT), Johnson & Johnson (JNJ) and Waste Management (WM). These are stocks that perform best during a recession.

It's wise for investors to remember that in the short and intermediate term, investing is volatile. That reality underscores the difficulty in removing the risk of investment losses.

Investing Strategies: Protecting Your Portfolio

Particular categories of people can be impacted on varying scales, so each investor has to plan accordingly for recession-proofing their finances based on their investing objectives and risk tolerance.

The market is difficult to predict, so diversifying your portfolio is an effective way to manage volatility. When assets are allocated in noncorrelated markets, there is a balance of risk in your investments. This diversification can be achieved through a mutual fund that holds a combination of stocks, bonds, real estate, emerging markets, etc.

As the markets become more volatile, another approach can be rebalancing your portfolio or resetting asset allocations, which aims to keep the portfolio in line with the initial risk and reward profile with which it was initially created. Jeff Klauenberg, founder of Klauenberg Retirement Solutions says, people who are employed in a reasonably recession-proof job, such as health care, government or education, should consider reducing risk in their portfolio, "particularly in your retirement plans, like a 401(k)."

He adds, "Switch your principal allocations (your current assets) into a more conservative allocation, like 30% stocks and 70% bonds. Or you might do 20% stocks and 80% bonds. After you set your allocation, you should leave the same. This way, if the markets drop, your principal is safer, but your new contributions are buying on sale."

Retired investors and those planning on retiring soon should keep one to two years of cash available in case of a recession. It's always wise to have an emergency fund and savings on hand. These funds are necessary for younger investors, the middle-aged and retirees.

Greg McBride, chief financial analyst at Bankrate, reminds us to "make sure you have an adequate emergency savings fund to weather a period of unemployment without having to liquidate other investments that have fallen in value."

Read the whole article at https://bit.ly/2x0RPOz