Recession-proof your portfolio with the three Rs

What do you do with your investment portfolio when you hear the infamous "R" word – recession? It's easy. Just follow the three Rs: review, rebalance and relax.

In recent months, economists have been cutting their growth forecasts for the Canadian and global economies. While evidence of a slowdown is mounting[1], it is notoriously difficult to predict – economists have failed to predict 148 of the last 150 recessions[2]. The dreaded "R-word", recession, is the economic term for two or more consecutive quarters of zero or negative economic growth (as measured by Gross Domestic Product). It is often trotted out when growth begins to moderate, but historically is rarely the outcome of such a slowdown, despite predictions to the contrary.

Recession: the nasty nine-letter word

Unfortunately, talking about a recession is one of the best ways to bring one about: hearing the "R" word, people begin to delay or abandon spending in anticipation of an economic slowdown[3]. This leads to a vicious circle: lower spending leads to lower business revenue, which leads to job losses, further worry, lower spending, more job losses and so on.

"R"-proofing your portfolio

Soaring or falling markets often generate strong emotional reactions, prompting investors to veer off course from their long-term plans. This can lead to common investment pitfalls like taking inappropriate risks, buying high and selling low, and moving to "the sidelines" (i.e. cash), thereby missing out when the markets recover.

Similarly, reacting to the "R" word by altering your investment plan is rarely the right move. Instead, investors would be well served to follow three other "R" words:

- **Review:** Wondering whether your goals are aligned with your investment portfolio's asset allocation and structure? Whether your risk tolerance is accurate?

  These are important questions and concerns to review with your advisor as your financial circumstances or goals change. But keep in mind that a recession is usually a short-term event, and that your investment portfolio usually reflects goals that stretch over a longer time horizon – so, changing it in response to short-term developments is rarely advisable.

- **Rebalance:** Your portfolio should be balanced in the right way to meet your goals and to reflect your appropriate risk tolerance. If your portfolio has drifted off-balance over time due to market movements or other factors, or your goals or circumstances have changed, speak to your advisor to review your portfolio to see if it needs to be rebalanced.

- **Relax:** Once you've reviewed your portfolio, and rebalanced as required, you can relax with confidence.

Remember, the average recession lasts six to nine months, and the impact is usually quick and transitory – making hasty, unwarranted changes to your portfolio is usually not.

To learn more, please contact us today.

---

[1] *Economic and Financial Market Outlook*, RBC Economics Research (March, 2019).

[2] *How Well Do Economists Forecast Recessions?*, International Monetary Fund, Zidong An; João Tovar Jalles; Prakash Loungani (March, 2018).

[3] *A reliable indicator of an imminent recession? Look to the pundits*, David Parkinson, The Globe & Mail (February, 2019).