

There's a black cloud of recession threatening your income, investments and financial future - Here's the silver lining

by [Aiden Sookdin](#), 02 August 2016

There's a scary word floating around the investment world right now.

It's hanging over your portfolio like a black cloud. It's threatening your income, your investments and your financial future.

The frightening thing is many investors don't even know that their money is in danger. They're ambling along blind to the fact that they're about to lose a large portion of their investments.

The reality is, if you don't do something about it today, you could lose between 20 to 30% of your investment portfolio.

By the time this threat hits, it'll be too late for you to protect yourself. You'll see your investments fall, panic and sell your shares taking massive losses.

The good news is that there is something you can do right now to protect your investment portfolio from what's to come. Francis Joubert, Editor of the Red Hot Penny Shares portfolio says, "There are still shares you can buy and profit from. You just need to know what, when and how to do it."

You don't have much time to prepare yourself for the massive fallout that's about to occur. You only have four months to make essential changes to the way you invest. You need to act now, before the rest of the market realises what's happening and the sell-off panic begins.

11 reasons why you need to protect your investments from the looming recession danger

Recession – The whisper of the word alone has the potential to destroy the economy, your income and your investment portfolio.

But this is no longer just a whisper in the markets. Economists, investors and even the South African Reserve Bank are preparing for a recession.

I am going to show you 11 reasons why a recession is about to hit the country and 3 steps you need to take today to protect your portfolio from impending doom.

Recession Indicator 1 – The World Bank has flagged South Africa as a “high risk” for recession

Catriona Purfield, the World Bank's programme leader for South Africa says, "Our baseline is not a recession, but obviously there is a risk of one when this year you are growing so low." While addressing a South African parliamentary committee, Purfield said that the drought has pushed more than 50,000 South Africans below the national poverty line of R501 a month.

Recession Indicator 2 – Negativity dominates mining and quarrying operations

Mining and quarrying operations in South Africa fell 18.1% in the first quarter. That alone contributed -1.5% to GDP growth. With labour challenges, increased mining costs and international financial woes, there's very little hope that the mining and quarrying sector will be able to perform any better in the second quarter of 2016.

Recession Indicator 3 – Transport, storage and communication falls

Another important indication that a recession is coming is a pull back in transport, storage and communications. When this sector fails to deliver, it means that massive businesses that drive economic growth are slowing down their operations. Transport, storage and communications fell 2.7% in the first quarter of 2016.

Recession Indicator 4 – Agriculture, forestry and fishing deliver poor results

South Africa is in the grip of a serious drought that's limiting the ability of the agriculture, forestry and fishing industry. Negative numbers from these sectors are expected to prevail well into 2017 and will continue to batter GDP growth.

Recession Indicator 5 – Gross Domestic Product (GDP) data is disturbing

Statistics South Africa released its GDP data for the first quarter of 2016. The South African economy contracted 1.2%. This is a significant pull back from the 0.4% marginal growth we saw in the fourth quarter of 2015.

Recession Indicator 6 – This is the third time since 2014 that GDP delivered negative results

The first quarter of 2014 delivered negative GDP growth of 1.6%. The second quarter of 2015, GDP growth came in 2% weaker. With a 1.2% drop in the first quarter of this year, this is the third time we've seen negative growth. Even though a recession is flagged when two successive quarters of negative economic growth is reported, these negative results are massively concerning.

Recession indicator 7 – The South African Reserve Bank is nervous about the future

The South African Reserve Bank Governor, Lesetja Kganyago says, "The world is in a low growth trap – Africa is in a low growth trap and so are we at this point in time. And that's why we are saying to all of our social partners and to, in particular, entrepreneurs in South Africa, we've got to start doing things differently."

Recession indicator 8 – Impossible economic expectations

To avoid a recession, South Africa will need to grow GDP by 1% for the last three quarters of 2016. Given that we've been unable to do that since 2013 and the fact that we're grappling with a serious doubt, makes this expectation nearly impossible.

Recession indicator 9 – Government is doing little to instil international investor confidence

If there is one area in which President Jacob Zuma thrives it's delivering financial scandals and political battles. Think about the recent game of musical chairs he played with finance ministers or his questionable relationship with the Guptas.

These issues pose a serious problem for the country as we are unable to attract international investors or more international business.

Recession indicator 10 – Ratings agencies are like wolves at the door

We've just dodged a credit rating downgrade. But the wolves are at the door. There are major concerns around government's ability to deliver on its growth forecasts of 0.6% for 2016. John Ashbourne, Africa economist at Capital Economics says, "The South African government faces an uphill battle to save its investment grade

credit rating.”

Recession Indicator 11 – Respected South African economists believe we’re already in a recession

"As far as I am concerned we have been in a recession for the past year. The reason is our economy has been growing below the growth levels of our population." – Dawie Roodt.

Roodt, a regular contributor to the South African Investor says, "We need to grow the economy's primary sectors such as mining and agriculture in order for unskilled people to work, but both these sectors are in recession,"

Magnus Heystek, Investment Strategist at Brenthurst Wealth says, "The outlook for returns from the local market has been dealt another blow with this poor growth number, in the wake of the many profit warnings already issued by companies listed on the JSE. Now more than ever, in his view, investors need to diversify and look at investments beyond the local market."

There's a silver lining around this dark cloud of recession – But you need to take action soon

Clearly, there's a strong argument in favour of a recession hitting the country very soon. That's why the *FSPInvest* team are taking serious steps to help investors overcome the possible fall out that's about to ensue.

I spoke to Francois Joubert to find out if there's anything we could do to overcome the impact of the recession. He showed me three steps that you need to take to protect your portfolio.

Recession Protection Step #1 – Don't wait for the recession to hit it will be too late

You do not want to sell your shares when the recession hits – that will mean selling at the bottom with the rest of the panicking investors. Francois believes that to avoid the impact of the recession, you need to take a serious look at the number of shares in your portfolio and start making changes now.

Francois says, "I've slowly sold off a number of shares in our *Red Hot Portfolio*. For 2016 I've tipped 10 shares in 7 months, while I've sold 15 shares. This has reduced the size of our open portfolio by +25%, thereby reducing our exposure to the market before the recession."

Recession Protection Step #2 – Get your personal finances in order, cut back on debt

We've already seen economic growth slow significantly since the beginning of the year. This is already causing higher inflation and you can expect the reserve bank to hike interest rates even higher to offset the problem.

Francois explains, "I've warned you against higher interest rates since the start of 2015. We've seen interest rates increase 1.25% since the start of 2015. You should make sure to pay off your credit cards and short term debt as soon as possible."

Recession Protection Step #3 – Set money aside to buy shares once the recession hits

When investors realise there's a recession, they start to panic. Suddenly, you'll see share prices fall and the market will hit rock bottom. This is the perfect time to buy good value shares at bargain prices.

Francois explains, "A study done in the US has shown that the average recession, going back 60 years, lasts around 220 days. Stocks typically hit their bottom, halfway through recessions. So you don't make money when buying shares as we enter the recession. You first need the recession gloom to set in, you need to wait for investors to lose hope."