



# Profiting In A Post-Recession Economy

by Sham Gad ([Contact Author](#) | [Biography](#))



People will always question what the future economy will look like after it suffers a [recession](#). Though there are different implications with each recession - owing to its causes and the governmental and financial changes that are brought about - the economy will definitely shift and there will emerge new economic practices and trends for industries, consumers and investors.

Following the depths of the 2007-2009 recession there's a "new world" characterized by:

- Non-existent consumer discretionary spending
- Tighter credit and borrowing standards
- Reduced home ownership
- Increased consumer savings

The above effects will serve to:

- Hold down corporate profit growth
- Restrict employment growth
- Likely reduce future expected market returns

Despite the above, investors have options and opportunities as long as they keep their expectations in line with the expected future outcome. Some wonderful investment opportunities exist for investors in all stages of life.

## Industries to Look For

When it comes to investing in the economy defined by the characteristics above, one question should dominate your investment consideration: *Does this company make an essential or non-essential product?*

When times are tough, people respond with their wallets. Unless folks are given great incentives, they won't buy unless they have to. In that kind of environment, I would favor food companies to retailers, healthcare providers to homebuilders, and defense contractors to automakers. Things like food, medicine and national security are musts in this world. An extra purse or a new car or bigger homes are not. And here's the best part: most of the companies that provide these necessary goods will continue to be around for a long time. (These type of companies are normally grouped in a sector called consumer staples – to learn more see [A Guide To Consumer Staples](#).)

When economies are sour, the stock market tends to punish all companies regardless of what line of business they are in. In other words, a business like a Kraft or Johnson and Johnson that sell essential food and health products all over the world may likely see its shares suffer along with other discretionary businesses like retailers. And you can be comforted by the fact that even in tough times, people still need to buy food and Tylenol. Looking for these types of companies will likely earn you market-beating returns during the several years following a recession, despite an overall sluggish economy.

Despite the temptation, avoid retailers and other companies that make non-discretionary consumer goods. Such companies will likely experience reduced profit margins as they are forced to mark down their products to entice consumers. (Also, find out what to do during a recession in our article [Recession-Proof Your Portfolio](#).)

### **Importance of Commodities**

Commodities are the most fundamental of human essentials. Things like wheat, corn, oil, zinc, copper and coal. While you might not physically buy some of these commodities, you can't go through a normal day without them. Every time you turn on a light switch or power up your stove, the electricity used is provided by coal or natural gas. Grains are the basic building blocks for all the foods we eat. Oil, besides being refined into gasoline, goes in things like plastic, carpets, soaps and detergents.

Besides being essentials, commodities also have inflationary pricing power. If the government prints massive amounts of money to combat the recession, [inflation](#) will likely happen. It might not happen immediately afterwards, but it will rear its ugly head. Commodities, for those reasons are a good place to be.

Fertilizer companies are also great considerations. Fertilizer is the necessary ingredient to boost crop yield - that is, producing more food from the same amount of land. As the global population grows, so will the need to maximize food production. When looking at commodity plays, focus on the larger businesses with the quality assets such as the large integrated oil companies. We will always need oil and the biggest companies have the deepest pocket book to continue providing us with the black gold during various pricing environments. Otherwise look for those companies that are the low cost producers. (For more on investing in commodities, check out [Commodities: The Portfolio Hedge](#).)

### **International Investment Exposure**

To illustrate why investors should also consider [diversifying](#) internationally we can take a look at the 2007-2009 recession. Although this was a global economic recession, it didn't affect every country equally. According to J.D. Power Asia Pacific, as of 2009, it was estimated that there were 820 cars for every 1,000 people in the US. In China, the figure was 34 cars per 1,000. Numbers like this illustrate the potential in countries like China, Brazil and India.

Major international commodity companies are now almost certain to have exposure to the growth in China. Such businesses enable investors to get the exposure without having to invest directly in China. The growth engines for companies like Johnson and Johnson is the fact that billions of people outside the U.S. will need its products. (Learn more about China as an emerging market in [Investing In China](#).)

## Conclusion

As long as investors are aware of the likely economic shifts that lie before them in a post-recession environment, the opportunity to make excellent investments is there. (For additional reading, check out [Rules For Post-Recession Investing](#) and [A Review Of Past Recessions](#).)



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