Four Top Ways to Protect your Portfolio in War

Tensions are rising between U.S. and Iran.

In fact, President Trump just tweeted, “If Iran wants to fight, it will be the official end of Iran. Never threaten the United States again!”

Along with that, the U.S. has already deployed warships and planes to the Gulf.

In return, Iran has said that “genocidal taunts won’t end Iran.”

While nothing is a guarantee, it’s always a good bet to consider how we can protect our portfolios in the event of a war.

No. 1 – Do What Buffett Would Do

Yep, don’t do a thing. Many folks are just holding everything, waiting for the chaos to end.

Historically, doing nothing during times of crisis has been the best investment strategy. Such crises inevitably lead to panic selling, as we saw in early August 2017. And, as we’re all aware the worst thing you can ever do is sell anything into fear.

Or, if you’re a contrarian, you can use the weakness as a buying opportunity.

More often than not, the Dow Jones rebounds from post-crisis panic lows not long after.

- After Pearl Harbor was hit, we saw a 3.8% decline in the S&P 500 on December 7, 1941. Over the next three weeks, a resilient market bounced back 0.3%.

- When JFK was assassinated in 1963, the S&P 500 fell 2.8%, only to recover 6.3% over the course of three weeks.

- After the 1987 stock market crash that resulted in a decline of 20.5%, the S&P 500 recovered by 9.7% over the next three weeks.

- After the U.S.S. Cole was bombed in 2000, the S&P 500 fell 2.6%, only to recover by 5.3% in the three weeks that followed.

- During the disgusting 9/11 attacks, the S&P 500 fell 4.9%. It would recover that 4.9% over the next three weeks because we wouldn’t let the terrorists scare us.

- When Bear Stearns collapsed in March 2008, the S&P 500 fell 2.1%, only to recover 3.1% over the next three weeks.

- When the Brexit vote occurred, the S&P 500 fell 3.6%. It would recover 6.4% over the next three weeks.

Even famed investors like Warren Buffett have used the fear of war as an opportunity. As he once noted:

“If you tell me all of that's going to happen, I will still be buying the stock. You're going to invest your money in something over time. The one thing you can be quite sure of is, if we went into some very major war, the value of money would go down – that's happened in virtually every war that I'm aware of. The last thing you'd want to do is hold money during a war. So if you don't want to hold cash, what do you want to own? You might want to own a farm, you might want to own an apartment house, you might want to own

securities.

During World War II, the stock market advanced – the stock market is going to advance over time. American businesses are going to be worth more money, dollars are going to be worth less, so that money won't buy you quite as much, but you're going to be a lot better off owning productive assets over the next 50 years, than you will be owning pieces of paper."

In times of chaos, Warren Buffett tells us to be fearful when others are greedy, and greedy when others are fearful. Baron Rothschild teaches us to "buy the blood in the streets" and Sir John Templeton teaches us to buy excessive pessimism.

If we apply that to the current situation, we'd begin to go long as others flee.

No. 2 – Trade the Long Side of Volatility

One way to trade the current situation is by shorting volatility with the fear gauge, for example.

We can use the following:

- iPath S&P 500 VIX Short-Term Futures (VXX)
- ProShares Ultra VIX Short-Term Futures (UVXY)
- VelocityShares Daily 2x VIX Short-Term ETN (TVIX)

No. 3 – Buy Defense ETFs

While we can always buy Raytheon, Boeing, General Dynamics, Northrop Grumman, and United Technologies, such ETFs offer us the exposure to all of them at a cheaper cost.

SPDR S&P Aerospace & Defense ETF (XAR): The SPDR S&P Aerospace & Defense ETF seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P Aerospace & Defense Select Industry Index. It has holdings in Axon Enterprise Inc., Textron Inc., and Orbital ATK Inc., for example.

iShares U.S. Aerospace & Defense ETF (ITA): The iShares US Aerospace & Defense ETF invests in stocks in the domestic aerospace and defense sector. These stocks can include companies that manufacture both commercial and military aircraft as well as other types of defense-related equipment. It has holdings in Boeing, United Technologies Corporation, Lockheed Martin, Raytheon, General Dynamics, and Northrop Grumman, for example.

Power Shares Aerospace & Defense ETF (PPA): The Invesco Aerospace & Defense ETF tracks a market-cap-weighted index of US-listed stocks involved in the defense, military, homeland security and space industries. It has holdings in Boeing, United Technologies, Honeywell International, Raytheon, and General Dynamics.

If you're interested in adding some aerospace and defense stocks to your portfolio, consider doing so via an ETF. A well-chosen ETF can give you instant diversification across popular sectors – and make investing and profiting from it that much easier.

No. 4 – Buy the Big Guns

While most of these stocks can be found in a defense ETF, some traders have been buying the following defense stocks, too, including:

- Raytheon (RTN)
- Boeing (BA)

- General Dynamics (GD)
- Northrop Grumman (NOC)
- United Technologies (UTX)

Hopefully we won’t see a war with Iran. But, these are some of the ways other traders have been playing a volatile situation.