Why Investors Shouldn’t Be Worried About a Market Crash

Description

Investors are now witnessing one of the longest bull markets of all time. Along with all three U.S. stock indices hitting record highs, this has created growing conjecture that a sharp market correction is on the horizon.

Clearly, stocks can’t continue their nonstop march upwards, even if Trump successfully implements his planned fiscal stimulus. Some pundits claim that it is time to hedge against a market crash by investing in safe-haven assets such as gold.

While there is certainly some merit for hedging against risk by having exposure to gold or other safe-haven assets, there is little reason for long-term investors to worry.

Now what?

One important aspect of the stock market that many investors fail to realize is that over the long term, it only goes in one direction: up. Even famed billionaire investor Warren Buffett shares this sentiment: “Our expectation is that investment gains will continue to be substantial.”

He attributes this to the long-running U.S. economic miracle, which, because of greater productivity and increasing efficiency, is creating greater wealth and fueling the inexorable ascent of the stock market.

Over the last 30 years, the **Dow Jones Industrial Average** has grown in value by an unbelievable 865%, and that is even after factoring in the headline-grabbing market crashes that occurred over that period.

Who can forget 1987’s Black Monday, when US$500 billion was wiped off the value of Dow in just one day? This was followed by the 2000 Dotcom Crash, which, according to some reports, caused US$5 trillion dollars of market value disappear. Then there was the 2007 U.S. housing meltdown, which triggered the Global Financial Crisis — the worst financial catastrophe since the Great Depression. It has been claimed by some reports that this destroyed US$15 trillion of market value globally.

Since then, despite the naysayers and fears of another financial crisis occurring, all three U.S. indices have achieved record highs. Even the humble **S&P/TSX Composite Index** has risen by 318% over the last 30 years and achieved an all-time record high in Mid-February of this year.

Yet gold, which many pundits claim is the ultimate safe-haven asset, has only returned 206% over that period.

This should make investors sit up and take notice.

You see, regardless of some of the worst financial calamities of modern times, stocks have recovered and continued their relentless climb upwards. This trend can only continue, which is why I'm not worried about the next sensational headline proclaiming that a market crash is nigh.

It emphasizes why investors should focus on investing in quality companies for the long term and why Buffett once famously quipped: "Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

If we turn to the performance of some of Canada's top stocks over the last three decades, it is easy to see why investors should ignore the claims that a market crash is inevitable.

Canada's second-largest bank by assets, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), fell to just over $18 per share in 2009 at the height of the Global Crisis. Since then it has more than tripled in value and has delivered a sensational 2,532% return over the last 30 years if dividends are included.

Another noticeable stock is energy company **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). For the same period, it delivered an outstanding 946% return for investors.

Even a defensive stock such as **Canadian Utilities Limited** (TSX:CU) has delivered an impressive 615% return over that time frame.

So what?

Clearly, investors would do better to invest in high-quality growth-oriented stocks for the long term and disregard the advice to hedge against the risk of an impending crash by investing in gold or converting their holdings to cash.

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2. NYSE:TD (The Toronto-Dominion Bank)
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