How Can You Protect Your Portfolio From a Market Crash?

Description

There's been a lot of bearish activity on the markets in 2018. With Bitcoin crashing back down to reality , marijuana stocks starting to falter, and with even the mighty **Facebook, Inc.** (NASDAQ:FB) recently shedding 20% of its value in one day, there are many sobering reminders that a bear market is always around the corner.

That doesn't mean that the sky is falling and that we'll see a crash happen tomorrow. However, investors shouldn't completely discount the lessons that can be learned from these events either.

Hype can quickly turn to panic

One of the most dangerous things I've observed when it comes to stocks and investing is the role that herd mentality can play. When the bulls are out in full force, a frenzy can take a stock to obscene levels. However, by the same token, that same excitement can turn to panic when things go wrong, which can have the reverse effect, sending the stock on an endless decline. Bitcoin is a great example of just how quickly things can go from good to bad.

How can investors avoid big corrections?

The safest way for investors to prevent getting on these roller coasters is to avoid speculative investments altogether. If you're reading charts or thinking that you've figured out which direction a stock is headed, that should be the first sign that you should step away and re-evaluate whether you've taken on too much risk.

An easy way to avoid all the noise that comes with high-risk stocks is to focus on value. Value investing ensures that you look at stocks with good fundamentals that trade at reasonable multiples, which is often the best way to keep yourself away from expensive, speculative stocks.

While it may be appealing to invest in stocks that trade at higher multiples because that usually involves investing in high-growth stocks that have lots of potential, the problem is that you end up paying for expectations that may never be realized. The sell-off that happened with Facebook is a good example of that, and that even a very successful company with lots of growth potential is not immune to a big correction.

Safety doesn't have to mean investing in bank stocks

Although bank stocks are associated with providing investors with the safest returns, there are other stocks that can be good long-term buys as well. **BCE Inc.** (TSX:BCE)(NYSE:BCE) was one of the most stable investments on the TSX last year, and the stock has generated good returns for investors over the years and pays a solid dividend as well. It's a good example of a well-diversified stock that can offer you some great returns without having to take on much risk.

Sticking to blue-chip stocks or even ETFs is a good way for investors to minimize their risk and still achieve good returns.

Bottom line

Investing should be a long-term strategy, rather than one that just looks to get rich quick. The more you can avoid the temptation of following the crowd and jumping on a bandwagon, the better off you'll be. Sticking to fundamentals and being disciplined in your approach is often the best way to succeed in the markets.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:META (Meta Platforms Inc.)
2. NYSE:BCE (BCE Inc.)
3. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/17
Date Created
2018/08/02
Author
djagielski