



## Use This 3-Step Strategy to Protect Your Growth Stocks From Disaster

### Description

Stocks have been flying a little high for some time now. In fact, we will soon be entering the longest bull market in the post-war era. That doesn't mean that stocks will be coming down any time soon, though. The fact that we bounced off such a low point after the financial point may indicate that this bull market still has a long way to run. Economics seem to support this; with unemployment rates dropping and interest rates rising, things are looking good.

But that doesn't mean that there aren't dark clouds on the horizon. International relations are, at present, anything but stable. Tariffs and trade wars have been heating up, making investors nervous. Even more disconcerting is the massive amounts of debt and sky-high real estate prices that are plaguing countries around the globe. It feels like the party might end at any moment, taking growth stocks with high valuations down with it.

So what would the best strategy be if you happen to hold [high valuation](#), high-growth stocks such as **Shopify Inc.** ([TSX:SHOP](#))(NASDAQ:SHOP) or **Aphria Inc.** ([TSX:ACB](#))? Each of these companies is highly valued, with neither company even earning any money to speak of as of yet, although Aphria has some earnings. Sure, their revenues are growing quickly, with Shopify increasing over 61% year-over-year and Aphria's [growing quickly](#) as well, but the truth is that their shares are already priced for future growth, leaving them vulnerable for corrections.

But as we have recently seen from high-profile financial misses from companies like **Facebook Inc.** (NASDAQ:FB), stock prices can collapse rapidly when investors lose faith in the growth story. These stocks also don't have dividends to support their share price, making them even more vulnerable to a correction. When the turn comes, it is often sudden, drastic and difficult to avoid. If the loss of confidence is combined with a local or global economic downturn, the results can be disastrous. In order to protect yourself against a slide in the share price, there are a few steps you can take.

First, ensure your growth stocks are in a taxable account, not a TFSA or an RRSP, if possible. The problem with continuing to hold them in a taxable account is that if the stock market turns ugly, you cannot claim a capital loss for tax purposes. If you sell your growth stocks in your TFSA or RRSP accounts, you will not incur capital gains before rebuying them in your taxable account.

The second step is to take some money earned from growth stock capital appreciation off the table. It may be a good idea not to buy back all the shares you sold, instead of locking in some of your gains you have made on these stocks. That way, you will be somewhat cushioned from losses should they occur.

Finally, it is a good strategy to use a stop loss on the stocks that you own. This could be done through either setting a loss using the stop-loss option on your brokers' trading platform or a mental stop loss, where you decided when you'll sell the stock. For these high-valuation companies, setting a stop loss of 10%-20% below the current stock price is a good rule of thumb.

Personally, I prefer to use a mental stop loss as opposed to the broker one. I have experienced situations when the stock dropped so quickly that my stop-loss was not activated, leaving me with the shares as they continued dropping in value. A mental stop loss is simply setting your selling price in your head the night before, and if the stock drops to or below that price, you log into your broker to sell it.

### **Don't panic: have a plan**

Just remember, it is important to have a strategy in place before anything happens. If the market drops and you do not have a plan in place, you are likely to panic, making devastating decisions in the process. Also, remember to consult with your accountant on any tax-related strategy to ensure that it is appropriate for you. Protect your gains in those high risk, high-reward stocks.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

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

### **PARTNER-FEEDS**

1. Msn
2. Newscred
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