5 Unique Tips to Prepare for a Market Crash

Description

Renewed talks of the inverted yield curve in the U.S. and the ongoing trade war between the country and China have triggered increased volatility in the North American stock markets.

However, the U.S. and Canadian markets are down by only about 6% and 4%, respectively, from their highs, which is really not that much.

The markets aren't even in correction territory, which is defined by a drop of at least 10%. In the last market crash, the market fell about 50%.

That said, seeing the markets in the red is a good reminder to prepare for a market crash.

Investors should strive to employ an investing strategy that works through all cycles and is also defensive in a market crash scenario. Here are five unique tips to prepare for a market crash.

Sell losers

The markets have been in a rally for about 10 years. If certain stocks haven't participated in the rally, you've got to wonder how they would perform in a market crash. Maybe it's time to say goodbye to these losers now and build a bigger cash position.

Build cash flow

You can build cash flow from various sources, such as from working full time or part time, renting out real estate properties, and holding dividend stocks.

Having cash flow allows you to buy stocks on the cheap in a market crash — and that's what makes investors rich!

Hold quality, high-yield dividend growth stocks

Our banking leader, **Royal Bank of Canada** (TSX:RY)(NYSE:RY), always tends to trade at a premium to its big bank peers. The market dip has brought the quality dividend stock to under $100 per share again, making it relatively cheap at under 11 times forward earnings. Specifically, this is a discount of about 11% from its normal multiple.

Royal Bank offers a safe yield of 4.1%, which helps investors with building cash flow. The U.S. and Canadian markets offer yields of 1.9% and 2.9%, respectively. So, Royal Bank's yield is considered high.

Buy on the cheap

In the last market crash, Royal Bank traded at a discount of as big as 50%! However, the window of opportunity to grab it at half price only lasted about two weeks.

Investors can argue that a discount of 11% doesn't come close to a discount of 50%. Unfortunately, half-price sales don't occur very often. In the next market crash, Royal Bank may offer only a 30% discount. Will you ignore a sale because it wasn't 50%?

Experience has taught me to keep watch on a list of quality stocks. Then, buy them whenever they're relatively cheap and build a position over time. The quality businesses with outperform over time and deliver great results.

How cheap before buying is for each investor to decide.

Build a cash position

It'll be very unfortunate not to be able to buy on the cheap in a market crash. Having cash flow helps but building a sizeable cash position helps even more.

Why do you think Warren Buffett's **Berkshire Hathaway** is sitting on about US$120 billion of cash and short-term U.S. treasury bills? One of the best value investors of all times is sitting on a huge cash hoard and waiting for that next market crash opportunity!

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