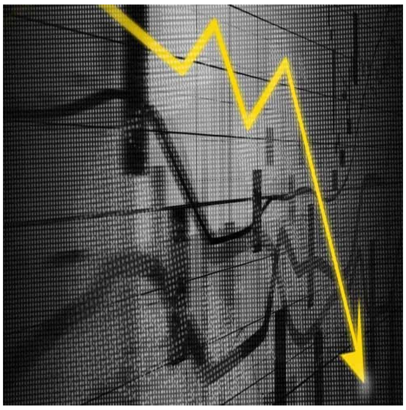

5 Little Tips Are All You Need to Prepare for the Next Market Crash

Description

Market crashes are often caused by some underlying economic factor(s) mixed with panic in the markets. For example, the stock market crash of 2008 was first triggered by subprime mortgages in the United States. As more and more homeowners couldn’t pay for their mortgages, it caused a downward spiral that led to a financial crisis, in which the world banking system almost collapsed. In the midst of all this, many investors panicked and lost substantial life savings in the financial markets.

If you don’t want that to be you in the next market downturn, which surely will come, sit tight and listen in on these five little tips.

Plan to invest for more than five years

In the last market crash, from the peak to the trough and finally to what was an obvious recovery, it took about two years and four months. Market crashes take time to recover. You don’t want to get caught at the bottom and have to sell and lose your hard-earned money. So, by having an investment horizon of five years or longer, you’re pretty much safeguarding your money and can expect decent returns potential.

Know your risk tolerance

You should have a good handle on your risk tolerance. If not, consider using a virtual account to test out the waters before investing for real or make small bets before making serious investments.

Once you figure out your risk tolerance, you won't get caught holding stocks you're uncomfortable with in a market downturn.

Notably, your risk tolerance can change over time. For example, someone in their accumulation phase may take on more risk than a retiree to attempt to generate greater returns.

Know your stocks

If you know the businesses you own in and out, you're likely to be much more comfortable holding their stocks — even through market crashes. So, take the time to know your stocks' underlying businesses.

Hold the best businesses

There are only so many of the best ideas in a sector. Buy the stocks of the best businesses when they are attractively valued. Then you won't need to worry about a thing when a market crash hits, because you know you hold the very best. In the financials sector, the very best would be either **Royal Bank of Canada** or **Toronto-Dominion Bank**. You can't go wrong with either one for the long haul!

Hold dividend stocks

It can be painful to see stock prices falling day after day, week after week in your portfolio during a market downturn. However, if you receive dividends, you'll feel like you're getting a positive return.

Psychologically, it's much easier to hold on to stocks that pay you periodic dividends than those that don't pay you anything. Moreover, dividends can provide the cash to buy more shares on the cheap in a market crash.

Investor takeaway

Inevitably, the next market crash will certainly come, but no one knows when it'll occur. By following the five little tips discussed, you should be very well prepared for any market downturn.

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