1 Serious Error to Avoid if You’re Anticipating a Market Crash

Description

The last few years in the market have been mostly sunshine and roses for investors, but there’s been a lot of news about a looming collapse that could mirror the recession of 2008.

Worse, you could find yourself exposed because of a single serious error that handicaps many investors in the event of a market crash or downturn. Here’s how you can identify this error and also protect yourself from a market crash.

Holding too much cash when the market recovers

When a market crash begins to happen, you might find yourself with a very strong urge to sell your stocks. As you see your investments dipping 5%, then 10%, then maybe even upwards of 20%, your stomach could start feeling queasy and you might sell some of your stocks.

If you were to time that correctly, you might save a few dollars on the way down. The big question then is, when do you come back into the market?

Hoarding cash happened in the aftermath of the 2008 recession all over the world. Instead of pumping cash into the market, investors were sitting on piles of cash and capital that wasn’t working for them, and they completely missed out on the recovery.

You not only wouldn’t have made any money on that cash packed into your reserves, but you would have lost out on the opportunity and the time to grow that wealth with savvy investments as well.

A lesson from the 2008 crash

Manulife (TSX:MFC)(NYSE:MFC) stock is a perfect example of a missed opportunity Canadians fanned on during the 2008 market crash.

Manulife Financial is a major multinational insurance company and provider of financial services based out of Toronto. Founded in 1887, the company was seen as one of the safest bets in the Canadian market with extreme growth potential from the year 2000 through 2007.

On November 1, 2007, the share price for Manulife hit $44.23. Fast forward one year later, and on October 30, 2008, that share price sat at $26.50 and would continue to plummet to $9.55 on March 9, 2009.

Because of external forces, emotional decisions, and a daily bombardment of horrific news stories about the market bottoming out, investors all over Canada decided to cut bait with MFC during this downward slide.

Even worse, many of them refused to jump back into the market, even as the share price of Manulife stock bounced right back up to $26.16 by July 2009.

This is just one example of how this serious error of sitting on too much cash when the market recovers from a crash can be very costly for you. By selling near the bottom, you will miss out on the gains from the recovery.

Summary

There are definitely trends and signals in a market downturn or crash that you'll want to pay attention to, with signals to close out your positions and rethink your investment strategy.

At the same time, it's almost never a good idea to get out of the market entirely. Learn this lesson from the 2008 crash the next time you see your stocks starting a downward march.

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