How to Make Money During a Stock Market Crash

Description

In late 2019, the TSX has been hitting all-time highs, capping a solid year for the stock market.

Following the late 2018 correction, the stock market staged a massive recovery, which was interrupted during the summer's trade uncertainty but resumed in the fall.

North American markets have benefited from reasonably solid growth in the United States. In the most recent quarter, U.S. GDP grew at 2.1%, which is down from past quarters but still good for a large economy. Canada's growth has been much more tepid at 0.1%, but many Canadian large caps can make money from exports to the U.S., even when domestic growth is weak.

Nevertheless, we have slowing economic growth at the same time, as the stock market is hitting all-time highs. This may indicate that a possible market crash is coming. If you're concerned about such a possibility, the following are three things you could do to protect your portfolio.

Re-balance your portfolio toward defensive investments

During market crashes, those who hold defensive investments tend to fare better than those who go long on risky equities. Technically, you can get even better results by shorting stocks, but that's a highly speculative play that's best left to professionals. For most people with only a few hours a week to do research, defensive investments like bonds and T bills tend to be the safest bet. However, that doesn't mean you need to limit yourself to ultra-low-risk investments that just barely keep pace with inflation.

Buy utility stocks

If you're looking for investments that will hold their value well during downturns but *also* give you upside in the ensuing recovery, consider utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS).

Utilities hold their value during recessions because their service, electricity, is indispensable. Even if they have their wages cut or go on EI, people won't stop heating and lighting their homes. As a result, utilities can experience earnings growth, even when the economy tanks.

Fortis, for example, saw its net income increase in both 2008 and 2009 — the peak years of the last global recession. That's a rare feat that you didn't see many non-utility stocks pull off during the same period. Granted, Fortis stock *did* decline in 2008 and 2009 — about 25% from top take to bottom take. However, equities as a whole fell by 50%, so Fortis did better than average. Additionally, FTS upped its dividend in 2008 and 2009, whereas many stocks cut theirs.

The above is a perfect illustration of what happens with utilities during market crashes. Owing to the tendency of stocks to move together, they do fall somewhat, but their earnings remain solid, providing a foundation for a quick recovery after the initial selloff has passed.

Exercise patience

A final general principle for surviving market crashes is to exercise patience.

Even if your portfolio is heavily weighted in defensive stocks like Fortis, you're likely to see some short-term losses. Again, this is all down to the tendency of stocks to move together. However, with such defensive investments, you'll lose less during the downturn and recover more quickly afterward than you would with riskier assets. You could even see some dividend growth along the way.

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