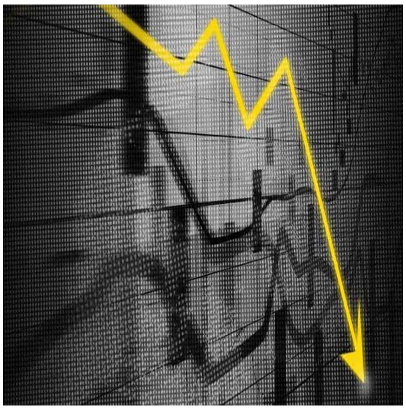

3 Reasons the Stock Market Could Crash in 2020

Description

There has been a lot of talk in the last few months regarding the increased likelihood of a market correction in 2020 and what that may look like.

While there is no way to tell when it will happen or how bad it will be, the typical signs that investors and economists watch point to an increasing probability of a correction happening sooner rather than later.

But what are these signs, and how should investors react if they think their portfolio may be at risk?

There are three major reasons that may indicate increased risk in financial markets.

Prolonged bull market

The longer a bull run takes place, naturally with all else equal, the larger the probability that the markets pull back. In Canada, the TSX has been on a long-term bull run since 2009, similar to the market in the States.

Although we have had some larger short-term pullbacks, there has been no major correction in the TSX since it fell by roughly 45% from 2008 to 2009.

Depending on who you ask, most people will tell you this is the longest bull market we have seen in the last hundred years, and unfortunately, even in financial markets, all good things must come to an end.

On average most bull markets last just five years or less, so the fact that this bull market is more than 10 years old leads a lot of people to suggest that a bear market is right around the corner.

Potential for a recession

The second reason has a lot to do with the prolonged bull market, as the economy tends to cycle similar to the markets, and it’s entirely possible for one to cause the other. Like the markets, the economy has been on a tear the last 10 years, especially in the U.S.

In Canada, we had a minor setback in 2015 and 2016 due to the oil market crash, but the economy and Bank of Canada handled it well, and since then, Canada has seen strong employment numbers and positive growth.

The growth has started to slow, however, and many have pointed to high levels of consumer debt as the Achilles's heel of the Canadian economy.

There's no telling whether or not the Canadian economy will be what sparks a market selloff; however, with the risks that exist, it's pretty clear that it's something major to watch going forward.

Heightened uncertainty about global trade

In the last year of President Trump's first term, a lot of uncertainty still exists surrounding global trade.

If a deal isn't reached and the situation gets worse, the fear in global financial markets could spread like a shock wave, inciting more fear in a vicious circle that could be the start of many financial markets selling off.

In addition, many nations are seeing growth start to slow so issues with trade and unnecessary tariffs could continue to impact the growth of many nations, which would also lead to more problems in many economies and would eventually trickle into financial markets.

There are a number of other issues that could have made the list; these are just the top three reasons why most people believe a correction is near.

How to prepare your portfolio

So, if the market is at a high risk of crashing, how should investors prepare their portfolios? The first thing you will want to do is make sure you aren't highly exposed to volatile stocks with betas above one.

You'll also want to make sure you have a good core of strong long-term investments, preferably in defensive industries, and stocks that pay out decent dividends to return some cash to you as you wait out the sell off.

You may also want to grab some exposure to a safe-haven asset like gold. The easiest way to do that is to buy an ETF such as **iShares S&P/TSX Global Gold Index ETF**. Gold tends to perform well during periods of increased fear and acts as a hedge if central banks start printing vast amounts of money to stimulate their economies.

Knowing what to watch and being prepared going into 2020 can bring investors great long-term opportunities.

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2025/07/04
Date Created
2019/12/30
Author
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