How to Turn a 2020-21 Market Crash Into an Opportunity to Make a Million

Description

If you followed Warren Buffett's timeless piece of advice by being "fearful when others are greedy" and "greedy when others are fearful," you've probably found that it's been a whiz to beat the **S&P 500** and **TSX Index** over the last few years. As we head into a potentially volatile U.S. election year, the contrarian strategy of buying dips and selling pops may continue to be a winning strategy for investors.

The early-2018 market melt-up caused a lot of investors to buy stocks on the fear of missing out. Those who chased the parabolic rally got punished with a very sudden 10% correction. On the flip side, if you'd bought on the October-December plunge, a time when many so-called pundits pronounced that the buy-the-dip strategy was "dead," you enjoyed a 22% bounce back in just over a quarter.

Buffett's contrarian strategy is undoubtedly "old-fashioned," but in the current environment, sometimes the old tricks are the best tricks.

Whenever a talking head on television pronounces that "things are different this time around," either referencing positive or negative paradigm shifts, you should remain skeptical and prepare for a reversal of sentiment, as it may have overswung either to the upside or downside. By buying into news that everybody has already bought into, you're doing yourself no favours. You'll be paying up a premium relative to those who've bought in early and will be left holding the bag should things unexpectedly change for the worse, as they always do.

Heading into 2020, the stage could be set for another sharp correction (or bear market), like the one experienced through 2018, as investors begin to assume that the U.S.-China trade war is imminently headed for a peaceful conclusion and that Fed chair Jay Powell will stand pat.

A reversal of recent progress in the trade war and commodity-price-driven inflationary pressures could send us back to where we were in December 2018. While it's impossible to predict what will happens with regards to U.S.-China trade, it is foolish (that's a lower-case *f*) to assume it'll be over just because a phase one deal is almost in the bag. Moreover, the recent bounce in oil prices could reignite the U.S. Fed's hawkish stance again, as inflation rears its ugly head — a surprise scenario that could cause a quick reversal of fortune.

But regardless of what causes the next big dip, it's times of turmoil where millions are made by a foolish few who are ready and willing to go against the grain.

Bad times don't last forever, but nor do good times.

So, it'd be prudent to initiate a position in out-of-favour defensive dividend stocks like **Emera**, which is down around 6% from September 2019 all-time highs, and not double-down on more economically sensitive, higher-beta plays like **Shopify**, which could put investors at risk of amplified negative moves in a downside scenario.

I wouldn't advise timing the markets on a week-to-week or even month-to-month basis, but as greed or fear overextends itself, it does make sense to roll with the punches and prepare to act in a contrarian fashion to make a quick buck off those who follow the herd.

Foolish takeaway

Defensives are out; cyclical plays are in. And while there's no telling exactly when the tides will turn, it's only prudent to keep some dry powder on the sidelines for the next big dip and not put it all to work even though you may feel foolish for doing so.

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