3 Ways to Prepare for a Stock Market Crash

Description

Stock market crashes are inevitable. Now, after 10 long years of economic expansion, the next major stock market crash seems to be just around the corner.

The problem is, no one can ever predict these events with any accuracy. Even the most experienced investors and reputed economists can't precisely say when the next crash will happen or how severe it will be. With that in mind, investors should take precautions as early as possible to limit the damage a sudden crash can cause.

Here are three ways ordinary investors can prepare for a market crash and limit their potential losses.

Park cash

Cash is king when the world is turned upside down. In a market crash, all companies are punished. When investors panic, they sell the good stocks alongside the bad ones indiscriminately.

Increasing the portion of cash in your portfolio acts as a buffer against such a crash. By parking cash in a high-interest savings account or a money market fund, such as **CI High Interest Savings Fund**
, you can earn a rate of return that's well above inflation. In other words, you can preserve your buying power indefinitely and jump into the market again when the stock prices have dropped substantially.

The world's most famous investor, Warren Buffett, seems to be applying this strategy at the moment. His investment company holds $128.2 billion in cash, an all-time record for the Oracle of Omaha.

Get defensive

If you're not willing to sit on the sidelines and miss out on potential gains in the stock market but are also worried about the next crash, there are still plenty of options for you.

Some industries are so critical that even an economic downturn cannot dent consumer demand. Healthcare, groceries, household utilities, and waste management are all examples of industries that are widely considered "recession-proof." Stocks like

Fortis and **Dollarama** performed relatively well during the last recession and are just as likely to sail through the next one.

Adding these defensive stocks to your portfolio could limit your downside when the market corrects and growth stocks or tech stocks lose their appeal.

Bet on real assets and low debt

It's important to remember that companies don't go out of business because of market downturns or a sudden lack in demand. Usually, business failure is because of an inability to meet debt obligations.

Companies with excessive debt or high interest payments tend to be the first ones to be decimated when the market crashes. Meanwhile, real assets like cash, properties, and raw material can help a company survive, even if the customers disappear temporarily.

Seeking out companies with little to no debt and highly valuable tangible assets is a great way to cushion the blow from a market crash. Companies like **Indigo Books** have assets and real estate worth more than the entire company at the moment. These undervalued stocks have limited downside and should help fortify your portfolio for the next crash.

Bottom line

Stock market crashes are inevitable and unavoidable. However, by adding stocks with low debt, low valuations, and robust demand to your portfolio, you could cushion the blow. Or simply move to cash to avoid the crash.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/07/27
Date Created
2020/02/11
Author
vraisinghani