TSX Stock Investors Should Know This About the Coming Market Crash

Description

A bear market is coming – and it's going to be a nasty one. We know this because the bull run we're still riding out has broken the record for longevity and investors now have much farther to fall than last time. But what we don't know is when the bear will awaken. However, whatever goes up must come down, as the saying goes.

So how should Canadian investors get ready for a downturn? If there's one quality that every personal investment portfolio should embody its diversification.

Portfolio overexposure is especially dangerous when overrepresented sectors are high-risk, highly cyclical (such as consumer discretionaries, and even banks), overvalued, or heavily impacted by lower oil prices, such as fossil fuel producers.

Green energy and black swans

Faced with growing climate crisis preparedness among the world's largest corporations and the growing cost-efficiency of renewables, the long-term stock market investor may want to strip out hydrocarbon.

TSX investors may consider selling off oil, gas, and pipeline stocks and replacing them with diversified Canadian green energy stocks like **Northland Power** and **Algonquin Power & Utilities**.

Indeed, heavily carbon-weighted oil and gas stocks are beginning to represent a core divestiture strategy at the moment. With too much product and not enough demand, the success of fossil fuel producers is becoming their downfall.

Further weighing on oil demand, wildcards like the coronavirus could even have the power to precipitate a widespread market downturn.

From **Amazon** to **Starbucks**, the coronavirus is impacting business operations in multiple industries. Properly known as 2019-nCoV, the virus is an economic force to be reckoned with, already surpassing the virality of SARs, which investors may remember had an impact on the markets back in 2003.

What's more concerning is the possibility of a true black swan, an event for which nobody is prepared. To a certain extent, both war in the Middle East and a sweeping pandemic are not entirely unexpected events, and therefore technically not black swans.

However, a truly market-shaking event – such as a sudden and prolonged military event, or the emergence of a disease more lethal than 2019-nCoV – would catch investors in a vulnerable position. For insurance against such an event, diversification in a portfolio is a must.

This is where stocks like **Lundin Mining** come in. While its area of business seems one-sided – a strictly metals and mining play – the spread of resources Lundin represents is in itself diversified.

Covering copper, zinc, nickel, as well as some exposure to gold, Lundin is a strong addition to a portfolio that includes access to the green energy megatrend through its extensive copper mines.

The bottom line

It's time to sell off those high-risk and underperforming companies and replace them with long-term dividend growth stocks that display a mix of solidly defensive facets that can outrun a recession.

Natural resources with a renewables twist is another strong long-term play for Canadian investors.

Stocks to consider include base and precious metal miners, such as leaders like Lundin, and top alternative energy stocks, such as Northland Power.

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