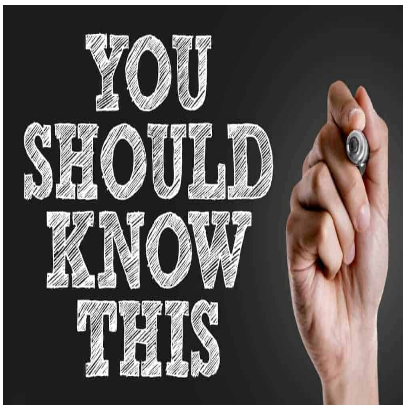

Canada: 3 Ways to Deal With a Stock Market Crash

Description

Canada's stock market has shed billions of dollars over the past week. Caught off-guard by the growing threat of the coronavirus, investors have sold stocks across the board. The **S&P/TSX Composite Index** is now down roughly 7% over five days — one of the steepest falls in its history.

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Stock market crashes like this are rare but expected. Every experienced investor has lived through multiple double-digit percentage drops in the market over the course of their career. However, even the oldest and most experienced investor is prone to panic when the market is selling off.

With that in mind, here are three ways savvy investors can face a cratering market.

Buy the dip

Professional investors see market corrections as opportunities. The stock market tends to throw the baby out with the bath water when panic sets in. In other words, good stocks are sold alongside bad or overpriced ones.

A market crash reduces the valuation of excellent companies, giving patient investors an opportunity to enter new positions at attractive prices. Utility giant **Fortis**, for example, is now trading at a price-to-earnings ratio of just 15 and the stock offers a robust dividend yield of 3.4%.

Value-oriented investors with cash laying around should rejoice when the market tumbles.

Move to safe havens

Of course, not every investor is interested in buying the dip. Buying during a market crash is for long-term investors trying to create wealth over time. For wealthy investors who are simply trying to protect their capital, it might be better to look for safe havens instead.

Gold, for example, is an excellent hedge against a market downturn. Exchange-traded funds that track the market value of gold or gold mining companies have seen their value surge over the past week as stocks plunged. Parking money in gold-linked securities is a great way to protect capital during volatile corrections.

Another way to deal with the crash is to bet on inverse ETFs such as the **Horizons BetaPro S&P/TSX 60 Inverse ETF,** which aims to deliver the *opposite* return of the stock market on a daily basis. So, when the **TSX Index** loses 1%, the inverse ETF gains 1%.

If gold and inverse ETFs are too risky for you, you can always move cash to a high-interest savings account or a liquid fund to protect capital for the short-term.

Do nothing

Buying the dip or fleeing to safety are only possible if you have cash to invest. For investors who've already poured all their savings into stocks and are fully exposed to the market, the only viable option is to sit tight.

Plenty of investors sell when the market is bleeding. Panic selling is rarely a good idea because valuations are suppressed during a crisis. Investors are better off waiting for the storm to blow over.

Bottom line

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During a market crash, investors should consider buying more shares of their favorite company, fleeing to safe havens such as gold ETFs or simply waiting for the market sentiment to recover. Panic selling is never a good idea.

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