3 Investing Lessons From the Stock Market Crash of 1987

Description

In the past few weeks, global markets have taken a beating, thanks to novel coronavirus (COVID-19) fears rattling investor confidence. After sliding 3,600 points in a single week, the Dow officially entered correction territory, dropping 12% in just five days. Investors were understandably spooked.

Not only does the virus have the potential to hurt airlines, resorts and hotels, the market had already reached a frothy valuation before any of this occurred. In light of this, it would be naïve to assume that the worst is over.

However, as history teaches, "the worst" times often end up being the best times to buy stocks. Over and over again, investors who bought low during market crashes ended up winning out in the end.

The stock market crash of 1987 was one of the best examples of this phenomenon. After stock prices fell 22.6% in a single day, investors received the fright of their lives.

Yet those who were patient were able to profit massively in the end. The following are three key lessons from investors who profited after Wall Street's worst one-day crash.

Lesson #1: Be like Buffett

Warren Buffett is a fan of repeating the maxim *"Be fearful when others are greedy, be greedy when others are fearful."* After the 1987 crash, he put his money where his mouth was–*literally.*

It was around this time that Buffett started building up his legendary position in **Coca-Cola** stock, which has since risen more than 2,000%, providing a 60% yield-on-cost for Buffett's portfolio. By following Buffett's advice — buying when everyone else is panicking — you can see the value of your holdings grow over time.

Lesson #2: Expect the unexpected

In the markets, you never know what will happen today, next week, or even next year. However, you do know that stocks have a strong tendency to rise over the long term.

If, during a market crash, you stock up on diversified index ETFs like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU), you never know *when* they'll recover.

It's even possible you could buy on a 20% dip and see your shares fall further. However, you do know that, over the long run, you've got the wind at your back.

Lesson #3: Don't expect things to turn around overnight

A final thing to keep in mind is that you need to be patient when investing during a market crash. While some crashes correct themselves quickly, others don't.

After the market crash of 1987, it took nearly a year for stocks to get back to their previous highs. It took even longer after the tech bubble crash, and longer still after the great crash of 1929.

This is yet another reason to consider investing in diversified index ETFs like XIU. With individual stocks, there's always the possibility that a given economic trend could do serious, lasting damage to your holdings.

With a fund like XIU, on the other hand, you know that you've got a diversified slice of the economy that's likely to grow over time. At present, XIU has an MER of just 0.18%, making it a efficient, affordable way to get a piece of the Canadian markets that you can "set and forget" for the long haul.

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