1 Big Mistake to Avoid Making During a Market Crash

Description

We're only a couple months into a new decade, and the markets have already shown a lot of volatility. From political issues in the U.S. to the outbreak of the coronavirus and crashing oil prices, there's been no shortage of newsworthy events impacting the markets. And they've wreaked havoc on stock prices. While the current situation has undoubtedly created some very attractive buying opportunities along the way, it's also created some risks. Investors need to be careful of one danger in particular.

Don't expect the markets to recover quickly

Every downturn is different from the last one. And so expecting to see a pattern or to try and predict a recovery can be dangerous. Many people would've expected the oil and gas industry to have recovered from the downturn that began in 2014. Instead, it's been a new normal for the industry, one where companies have had to adapt to lower oil prices. Relying on the past to predict the future is one of the biggest mistakes investors can make. There's no law where stocks will return to where they were prior to a downturn, and investors shouldn't expect that to happen, either.

Investing in a stock because it's cheap shouldn't be the main reason to put it in your portfolio. Investors need to consider what the future looks like for a stock, because if things don't look good, it may be a long time before a stock recovers — if at all. If you're hoping for a quick turnaround and recovery, that could put you in a dangerous position. And if you need access to the money that you've invested, it could lead to you selling at a loss just to gain access to your funds.

Why a long-term strategy is often the best one

Investors only need to look to an investor like Warren Buffett to see why long-term investing works. Without worrying about short-term price movements, it's a much simpler strategy. For instance, investing in a stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) can be a great way to grow your portfolio's value. Not only can you earn a solid dividend yield of over 4% per year, but those payouts will likely continue to rise over time. Even if there's a recession that ends up taking place, it'll recover right along with the TSX. As long as you're able and willing to wait, the stock can generate solid long-term returns for you over time.

From 2017 to 2019, shares of RBC rose by 11%. It's not the type of return you would've earned from owning **Tesla** stock or buying a hot IPO like **Beyond Meat**, but it will give you stability. RBC's returns are in line with the TSX. And although that may not be sufficient for many investors, it's likely suitable for risk-averse investors. Those returns are also without factoring the dividend income that investors would have earned during that time as well.

With the big bank consistently generating strong profits over the years, RBC is one of the safer buys that investors can hold. It can offer some good long-term returns at minimal risk.

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