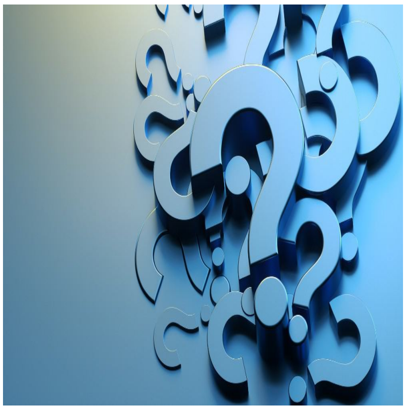

2020 Market Crash: How Much Further Could Stocks Fall?

Description

The coronavirus (COVID-19) meltdown is unlike anything the stock markets have ever seen. It's a black swan event that caused the Fed to cut interest rates to zero over the weekend. The 2020 edition of Black Monday and Black Thursday are now in the record books, but with more pain in the forecast, how should investors prepare?

Amid the pandemic-induced state of emergency, stocks have been crashing faster and harder than in 2007-08, leaving many investors in a state of panic not only because their portfolio lost nearly a third of its value in a month, but also because of the threat that the outbreak has to one's well-being.

Whenever you've got a high risk of financial losses alongside a public health threat, there's probably going to be more than just a panic. There could be mass hysteria.

Don't let yourself fall into a state of panic

But we Fools are able to temper our emotions because we know in times like these, one must practice the contrarian teachings of Warren Buffett by being greedy while others are fearful — even if it means looking like a fool (that's a lower-case "f") by racking up substantial near-term losses in this falling knife of a market.

Buffett has likely been backing up the truck on his mountain of cash on this dip, losing billions in the process. Unlike Buffett, however, you don't have hundreds of billions of dollars to swing at everything that's coming your way.

You therefore need to ensure that you don't exhaust all of your cash reserves at one instance in time. Try to avoid timing the market because if you're wrong, you may not have enough cash to take advantage of the even bigger bargains that could follow.

How low can it go?

Goldman Sachs, which called the coronavirus correction, recently lowered the bar on its bear case, calling for the **S&P 500** to fall to the 2,000 level — representing yet another 20% in downside from today's levels. Similar to most event-driven declines, however, Goldman is optimistic that stocks can recover quickly.

While the near-term forecast sounds dire, it should be taken with a grain of salt. So, don't even think about "selling everything" after suffering a 30% drop.

Goldman has been gradually lowering the bar, and their original downside target of the 2018 correction lows of 2,450 isn't out of the window yet — but it soon could be as investors go into a panic over the Fed's latest rate cut to zero.

Don't treat such forecasts as gospel, but do realize that everyone will keep lowering the bar on their price target as the market continues tumbling into the abyss.

Much like throwing darts at a board, nobody will know where the bottom will be, so there's a chance you could miss what's looking like one of the best buying opportunities since the Financial Crisis.

If you're preparing for a 40-50% peak-to-trough drop, you've got to start doing some buying on the way down, as in the event of a V-shaped bounce, you could miss out on the bargains entirely. After the last few weeks of selling hell, the markets posted a record-breaking point bounce last Friday.

While it's like a "sucker's rally" now that the markets are back in the deep red, we'll eventually reach a point where we could find ourselves making up the lost ground a lot quicker than anyone's expecting.

Foolish takeaway

Event-driven declines are pure panic and tend to overswing to the downside. Just how much of an overswing to the downside is anyone's guess, but the fact remains that such dips ought to be bought in tiny increments on the way down, regardless of how low one thinks stocks can go.

By all means, swing at the pitches as they come — just don't swing for the fences.

Stay hungry. Stay Foolish.

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