Here Are the 2 Worst Things You Can Do During a Market Crash

Description

It is part of the economic cycle for the stock markets to see a downturn. The last decade saw a phenomenal performance by the overall TSX Index minus a couple of slight dips. 2019 was strife with talks of an incoming recession, as the TSX Index reached new all-time highs.

At writing, the S&P/TSX Composite Index is down more than 19%, and we are in the midst of the feared market crash. The outbreak of the coronavirus that began in Wuhan, China, and is now a worldwide epidemic caused the frenzied sell-off.

In the event of a market correction, investors start making mistakes that ultimately deprive them of a more robust financial standing by the time the economy recovers.

I am going to discuss two critical mistakes many investors make during a market crash. Avoid making them, so you do not regret missing out on what could be an opportunity to come out of recession a wealthier investor.

Panic sell-offs

We are already seeing investors panic, as the coronavirus spreads across the world. The number one mistake you can make during a market crash is overreacting to short-term news. The sharp decline in the index clearly shows panic selling is an unwise decision.

Investors start selling off their shares as the prices drop to cut their losses and prevent losing further wealth. As they start selling their stocks, others follow suit. It has been a trend through previous recessions as well.

Do not become one of the sheep. Rationally think about your investment portfolio. Yes, you might have to sell your shares in some of the companies you invested in, but not your entire portfolio. Re-evaluate your portfolio and sell shares of companies known for volatility and weak long-term value for shareholders.

Holding cash

The second mistake investors make during a market crash is holding on to their wealth in cash. Idle money is always going to be trash, unless you choose to do something about it. Piling up cash but not allowing it to grow makes your money virtually useless. There is a possibility it can even decline in value due to inflation.

Whether you have savings in cash that you have collected over a long time, or you have money by selling off shares, I think it is always better to put that money to use. Consider investing in safe and reliable recession-proof assets like the **BCE** (TSX:BCE)(NYSE:BCE) stock.

BCE is the largest telecom operator in Canada. The telecom sector continues to be profitable for the Canadian economy. At writing, the TSX 60 Index is down by more than 12% from the start of the year. The BCE stock is down from its February 2020 peak, but it is up by 1.31% from its share price at the start of the year.

The company is highly attractive for its shareholders amid the increasing uncertainty in the market. BCE owes the lower volatility of its shares to its business model. It provides a service that's crucial for its customers. People still need to communicate, no matter how bad the economy gets.

In addition to the stability it provides, BCE also pays its investors dividends at a juicy 5.55% yield.

Foolish takeaway

Panicking and holding cash is detrimental to your financial status in the event of a market crash. Consider re-evaluating your portfolio and removing high-risk assets. Use the surplus cash you have to add low-risk, recession-proof, and dividend-paying assets to your holdings.

I think BCE could be an ideal option to consider adding to your investments to this end.

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