Retirees: How to Invest in This Market Crash

Description

The Great Market Crash of 2020 is what they're probably going to be calling these times in a decade from now. These last few weeks will go down in the history books as an example of what a pandemic can do to the economy and the stock market. This 2020 crash has served up two Black Mondays, a Black Thursday — and who knows what else will land!

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There's no question that the coronavirus (COVID-19) hit investors by surprise. Unfortunately, retirees are not only most vulnerable to the outbreak, but they're also the most vulnerable financially because of the devastating events that have unfolded over the last few weeks.

The market crash of 2020 proved there's no substitute for cash

The **TSX Index** plummeted nearly 33% from the top. While equities undoubtedly took a beating, the damage didn't stop there.

Many safe haven assets like bonds and gold also got struck as liquidity became hard to come by across the board. Liquidity dried up for bonds as cash became tight amid one of the worst rounds of selling since the crash of 1987.

As a result, many retirees who were invested in popular bond ETFs also took a beating when they shouldn't have had this market been normal. Cash suddenly became tight, as bonds and gold sold off viciously when they should have rallied as stocks continued their tumble into the abyss.

Market crash of 2020: Bonds aren't what they used to be

It's not every day you see the **Vanguard Canadian Short Term Corporate Bond Index ETF** (TSX:VSC) down by 8% in a single week. That's stock-like volatility that bond investors didn't sign up for and didn't deserve as interest rates were slashed.

Warren Buffett was right. Bonds need a warning label slapped on them, so investors realize the real

risks of fixed-income securities, even the safer ones with shorter-term duration.

There's no doubt that many retirees are feeling pained as they got dealt with a one-two punch, a jab from the equity markets and an uppercut from the bond market.

For many retirees who were overweight in bonds, safe investments like REITs and bond proxy equities, the cash crunch hit them hard as save havens blew up, leaving them with few others places to hide other than cash.

This begs the question, where is a retiree to hide when we enter a market crash? And does it even make sense to hold bonds anymore given interest rates could be headed to negative territory?

The Fed (and likely the Bank of Canada) are reluctant to cut interest rates into the negatives. But that doesn't mean it can't happen should worse come to worst.

Moreover, investors shouldn't view bonds as the safe-haven investments they once were. They're low return assets that clearly aren't immune from a market-wide failure, so retirees need to ask themselves if they're still worth it given that they could fail in a crisis.

What is a retiree to do?

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In times like these, when the sky seems to be falling, cash is king.

You should always have dry powder on the sidelines so you're able to navigate through liquidity issues during times of turmoil. With enough dry powder on the sidelines, you'll be able to buy your favourite dividend stocks when they come on sale and take advantage of market anomalies like what we witnessed last week.

If you were like Warren Buffett and kept your powder dry, you should look to buy some of the blue chips out there that now have the highest dividend yields they've had since the last crisis.

Foolish takeaway

I don't care how "safe" an asset is; they're no substitute for cash.

When a crisis hits and we're in a market crash, all bets are off with lowly correlated alternative investments, which could move in the same direction as stocks.

While cash may be a trash investment over time, it's arguably the best insurance policy when the markets implode. You won't have to worry about liquidity, and you can swing at all the picture-perfect pitches that are thrown your way in the equity markets.

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