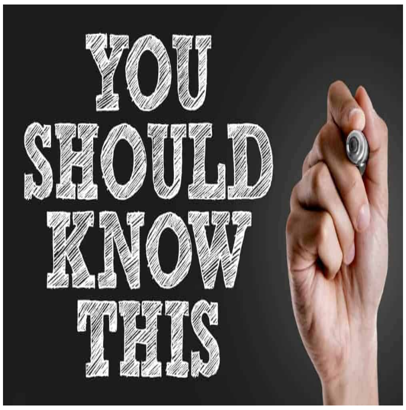

The Dos and Don’ts of a Stock Market Crash

Description

Many investors fear a market crash. Long-term investors, however, relish it for the opportunity it presents. If you can play your cards right during the market meltdown, you can set yourself up to become a millionaire once the market stabilizes and proliferates.

The S&P/TSX Composite Index is down 23.56% from its February 2020 peak. In the past few weeks, most Canadians have lost a significant amount of their wealth. I am going to discuss a few critical things you should and should not do amid the ongoing bear market, so you can come out on top once the dust settles.

Do not panic

With stock markets losing millions, it is understandable if you become afraid for your financial security. The impact on the global economy is substantial, and there is no denying it, but that does not mean you should panic and start selling all the shares you own.

You should re-evaluate your portfolio and try to determine what you could do to improve it. If you have an undiversified portfolio composed primarily of stocks from the most affected sectors, you have a problem on your hands. Recognize the mistakes and correct them sooner rather than later.

Do diversify

That brings us to the thing you should do during a market crash. Re-evaluate your portfolio and look at how you can diversify it. Anybody overexposed to travel, banks, or energy sectors is suffering right now. I am not saying you should not have shares of businesses from those sectors. Still, it doesn’t mean those three sectors should fill your investment portfolio.

Improper diversification can drown your financial well-being. Having too much stake in all three sectors means your wealth will take a brunt of the damage. Focus on diversifying your portfolio to fill it withhigh-quality stocks.

Do consider long-term prospects

When you consider diversifying your portfolio, go for equities with phenomenal long-term prospects. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock, for instance, could be a fantastic option to consider. I know it is a banking sector operator, and it will decline further due to the economic downturn, but it can be a way to grow your portfolio's long-term value.

The stock rose by 11% from 2017 to 2019 — a steady and reliable return. RBC's returns on investment fall in line with the overall TSX Index's performance. It means the stock will likely fall further with the broader markets, but it can recover with the market as well. It could be an ideal quality for risk-averse investors in a crisis.

The bank also pays its investors dividends regardless of circumstances. The stock is trading for $83.85 per share at writing. It is down by more than 23% from its peak in February 2020. RBC pays its shareholders dividends at a juicy 5.15% yield.

Foolish takeaway

I think keeping yourself calm during the situation and strategically reducing your exposure to at-risk sectors could help you curb your losses. At the same time, I think it would help if you re-prioritize your portfolio to include assets with fantastic long-term value regardless of the short-term outlook.

To this end, RBC could be an excellent asset to begin rebuilding a portfolio with a long-term outlook.

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Date
2025/08/29
Date Created
2020/03/23
Author
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