Market Crash: This Is How You Should Invest

Description

There has been a lot of talk about how the coronavirus has decimated economies, taking away people's jobs and potentially dropping us into a recession. While it's true that the virus has disrupted supply lines, slowed down the economy, and put a severe strain on global medical systems, the severity of the drop in the stock market and the severity of the impact on economies is not solely the fault of the virus.

In fact, people, governments, and companies could have skated through this in much better shape if everyone did not have an extreme addiction to debt. Our excessive global debt levels have put us into this position. Our lack of a safety net has made us overly vulnerable to an outside black swan of which the coronavirus and the oil price collapse are just the catalyst.

Who makes it out of this?

Frankly, no government, company, or individual will make it out of this unscathed. These black swan events will impact everyone. Even if everyone were in excellent financial shape, there would be negative impacts on the economy, individuals, and governments.

If there were less leverage globally, however, the impacts would be far less extreme on the economic system. Governments would have money stashed aside for a rainy day. Companies would be able to weather the downturn with less negative impacts, and individuals would be able to stay away from work longer and be less stressed.

How do I invest in this?

The one thing you should keep in mind is that stocks can always go lower. Look for great companies you can hold for decades. Take the Canadian banks, for example.

A couple of weeks ago, they were screaming buys. Today they are even more of a screaming buy. Soon they will be gale-force wind screaming, absolute buys. The point is, they can go lower than you can imagine.

This does not make them worse today than they were before. Quite the contrary, in fact. These stocks are better buys than ever before. If you want to frustrate yourself, buy slowly.

It's better to keep buying in smaller, slower amounts than to go all-in right away. Of course, you might not be fully invested at the end of it, but at least you were able to average down.

For example, look at one of Canada's best banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY). A couple of days ago the stock was trading at $82 a share and had a yield of over 5%. That was a pretty attractive entry point, anyone might agree.

How things change. Today the stock is now trading at $73 a share with a yield of almost 6%. Even though you might have bought the stock at what you thought was a good price, you might feel pretty foolish today. If they manage to keep raising their dividends, these stocks will be excellent long-term holds if bought at these prices.

The funny thing, however, is that the stock hasn't changed. It's still the strong, diversified bank that it was a few days before, and it will still benefit from its United States exposure over the long run.

The shares are simply cheaper. In a deflationary period such as this, it pays to act slowly. That way, when stocks are careening southward, you'll be able to gradually build your position over time.

The bottom line

There's really no way to prepare for a horrible event such as the coronavirus. It's devastating and demands immediate action such as shutting down flight routes and the economy to get things under control. But the extreme downturn in markets is the result of excesses in the system, margin calls, and huge debt levels.

If you are choosing stocks at this point, stay away from companies with high levels of debt. They are fragile and are exposed to the negative impacts of the downturn more than companies with solid balance sheets.

Those companies will weather the storm.

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