Market Crash: Investing in Defensive Stocks

Description

Many investors are scared of the 2020 market crash. This is indicated by the volatility index (a gauge for fear in the market), which currently trades at its highest levels since the last market crash.

In fact, some investors believe that this market crash would be worse than the last bear market we experienced about 11 years ago. Last time, there was a financial crisis. This time, we have a global pandemic.

To better protect your money but also give you a good chance of creating massive wealth, investors should consider investing in defensive stocks.

You've got to be able to hold on to the shares of your stocks to benefit from the market recovery that will inevitably come. To do so, you must be comfortable with your stock holdings. Knowing that you're investing defensively can help you hold on to your stocks.

There are multiple facets to contemplate when investing defensively.

Market crash: Valuation is still key

A market crash drags down the stock prices of all stocks at one point or another. However, not all falling stock prices are equal.

Some stocks may be expensive to begin with. The market crash dragging down the stock price could just bring the shares to a reasonable valuation. This would apply to quality stocks that have strong fundamentals.

Dollarama stock is a good example of this. The growth stock is well recognized. Investors got so optimistic about its growth potential that at one point they bid the shares to a price-to-earnings ratio of 37!

At $41 and change per share, Dollarama stock trades at a more reasonable valuation of 23 times earnings.

Dollarama is a defensive stock to own, because its earnings are expected to remain strong, despite the coronavirus crisis.

Market crash: Durable businesses remain intact

This market crash has dragged down the stock prices of the Big Six [Canadian banks](), the Big Three telecoms, and the top utilities.

However, years from now, I'm sure all these durable businesses will still be here.

Stocks are driven by their underlying businesses. Therefore, by investing in stocks, you're investing in their businesses. By investing in durable businesses like **Royal Bank of Canada**, **BCE**, and **Fortis**, you can guarantee that your shares will trade at higher levels in the far future.

Market crash: Dividends are your defence

In market crashes, you want to invest in safe dividends first. They're actually both your defence and offence.

Psychologically, they help you hold on to your shares, because you receive dividend income periodically. You can then go on the offence and reinvest the dividends for more shares.

The Foolish bottom line

In today's market crash, like any other bear markets, you should invest defensively. Combining the three key points, you'll want to invest in durable businesses, which pay nice dividend income, at good valuations.

Royal Bank, BCE, and Fortis trade at decent valuations today and offer nice dividend yields of 3.9-6.2%. However, Dollarama stock offers the greatest growth potential. It's the only one that offers double-digit growth potential on its bottom line.

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