3 Unforgivable Mistakes to Avoid in a Market Crash

Description

Market crashes are a rare opportunity for long-term investors to grab stocks at insane discounts to their intrinsic value. Investors should see historic down days, like Black Monday or Black Thursday, not as something to be dreaded, but as a chance to buy quality merchandise at steep discounts – just like Black Friday!

Of course, as with a Black Friday blowout, you've got to have the cash on hand, or you won't be able to take advantage of the deals. Unlike the actual Black Friday, people tend to stampede away from the deals rather than toward them. This leaves no shortage of bargains to be had if you kept your powder dry and your emotions cool.

Some patient investors like Warren Buffett save up so they're in a position to go on a shopping spree when the inevitable stock market blowout happens. Unlike the real Black Friday, the stock market's version can happen at any time. It doesn't give notice and it can't be marked on a calendar.

While buying market crashes sounds easy to do on paper, there are many possible mistakes to make. Here are three obstacles that investors should avoid if they're looking to be like Buffett and use market crashes as a chance to make substantial wealth.

Running out of cash in a market crash

As we've seen in the last few months, being 100% invested in the equity markets is dangerous. Even in the best economy, the world can be derailed by a black swan event like a pandemic or a war. Black swan events may be rare, but they can happen at *any* time, turning euphoric greed into mass hysteria without a moment's notice.

Buffett is humble enough to acknowledge that he can't predict everything, which is a major reason he has held cash despite being so bullish on America's future. He never wants to be short on cash in a market crash.

Every investor needs to realize that they should also have enough cash to withstand market crashes.

No one wants to be put in a spot where they have to sell stocks after a drastic fall in equity markets in order to meet day-to-day living expenses.

Remember to only invest money you’re not planning on touching in the near to intermediate term.

Continuously “lowering the bar” on the stocks on your watchlist amid the market crash

When the markets are crashing every day, it can be tempting to wait until the volatility dies down before you start buying stocks. But if the stocks on your radar have fallen to or below a price that previously would have enticed you to buy, you should just buy it. Ignore the negative momentum, and don’t lower the price at which the stock becomes a ‘buy’ for you. Lowering the bar on stocks can be a nasty habit that could stop you from buying anything in a market crash altogether.

For example, f you were planning to buy **Spin Master** at $15, and the stock falls to $11.60, you should buying hand over fist. Don’t lower the bar further and tell yourself you’ll buy if it hits $9. When it does hit $9, you’ll be tempted to lower your desired price to $7, then $5. Eventually, you’ll lower the bar so much that it will cause you to miss the boat entirely as the stock bounces back.

Trying to time the bottom

Like lowering the bar on a stock, it’s also tempting to lower the bar on the market during a market crash.

Moreover, paying too much merit to market projections or bottom calls made by investment banks like **Goldman Sachs** could cause you to miss out entirely. Nobody truly knows where the bottom is and when it’s going to happen with any degree of precision.

You could find yourself waiting for a 2,000-level bottom in the **S&P 500** that may never happen, leaving you empty-handed as the Black Friday blowout comes and goes.

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