Stock Market Crash: 3 Lessons to Learn

Description

The recent stock market crash came quickly and with little warning, severely impacting portfolios of investors who weren't ready.

These issues often go unnoticed until it's too late. So, if you are overexposed with your investments, or if your portfolio is not in the best position it could be, you may have been impacted more than you'd have liked.

Obviously, you can never completely avoid these things. And it's not like you should have sold your stocks ahead of time, even if you had known.

But it does teach us that we need to be prepared and leaves us with some reminders for the next time markets start to become frothy.

Here are the top three lessons to take away from the coronavirus stock market crash.

Be diversified in case of a market crash

Although all stocks were sold off heavily over the last month, some stocks were sold off far more than others.

For example, investors who had a major position in a stock like **Air Canada** would have lost a significant amount of their wealth by not being diversified.

Diversification goes beyond just buying different stocks. It also extends to different geographies and jurisdictions.

The coronavirus is a perfect example of that. While some countries are shutting down their economies completely, others are already recovering. Some countries were barely affected at all.

This isn't just about diseases, though. Natural disasters are another perfect example of why it's important to diversify your investments geographically. This way you can avoid a specific country or continent's stock market crash.

Expect the unexpected

Most stock market crashes — although the signs were there in hindsight — come with little or no notice.

It's important investors remember when researching stocks that just because something is unlikely to happen doesn't mean it can't happen.

If you were looking at a company just one month ago that had considerable debt. You may have thought that as long as its business stayed open the debt would be fine. You also may have thought that a decline in revenues by even just 25% would be impossible. How could this happen if it were unprecedented?

Fast forward one month, and a number of companies have had to cease operations completely. This has been what's led to many stock markets crashing around the world.

This just goes to show that anything can happen, and investors always need to expect the unexpected. It also helps to have a contingency plan for the worst-case scenario.

Always have cash ready for a market crash

The last important lesson learned by many during this market crash is the importance of having a cash position. Having a cash position is the first step in preparing for a worst-case scenario in markets.

You don't want the position to be too big and drag on your portfolio during bull runs.

But it's paramount investors have some cash ready on hand. So, when a stock market crash unexpectedly hits, you have the ammunition to buy high-quality stocks cheap and continue to position your portfolio for the future.

A stock like **Pembina Pipeline** became super cheap right away as the markets crashed. The discount didn't last long though, and soon after, the stock recovered to prices closer to its fair value.

So, investors who had cash right away and were confident in what they were buying could have made significant value already. Pembina stock is already up more than 75% from its lows the week before.

Having cash can even extend to your personal finances, too. This current environment is a perfect example of the importance of having an emergency fund. Otherwise you may be left selling stocks at the worst time, just to pay for essentials.

Bottom line

If you remember these lessons, you and your portfolio will be in much better shape. And the next time a stock market crash unexpectedly hits, you'll be ready to take full advantage.

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