Revealed: My Favourite Way to Make Money Off Market Crashes

Description

Whenever the market crashes as violently as it did this March, a window of opportunity to scoop up stocks at bargain-basement prices is opened. Nobody knows how long the window will be open or how much wider it'll open. The only thing we know as investors is that it is open, and we should seek to seize the rare opportunity before it can and will eventually vanish.

A better (and safer) way to buy as the market tanks

Many contrarian investors have their own way of buying market crashes. Some try to be heroes by attempting to chase the most affected, most beaten-up stocks to maximize their upside. Doing so is akin to picking up change that's been scattered in front of a steamroller. And if you're not willing to see your investment be down by deep double digits over the near term, it's probably an investment strategy to be avoided, especially if you're of the belief that things could get much worse and discounts could become steeper with time.

The coronavirus crash has caused an unprecedented amount of panic. It triggered an "everything sell-off" that caused investors to ditch "safe-haven" assets like gold and bonds in the collective rush for cash.

Whenever such a crisis hits, there are smart, calculated ways to place your bets as bargains open up. While being a hero with severely battered stocks in the direct cross-hairs of coronavirus, such as **Air Canada**, is a compelling endeavour for fearless contrarians, I'd argue that it's much better to buy shares of a company that you know to be trading at a discount to its intrinsic value, rather than taking a risk on a falling knife of a stock that's nearly impossible to value.

In essence, I'd urge investors to stay within their circle of competence when a crash happens and bargains become abundant. You don't need to step in front of a steamroller to pick up the coins lying on the ground, so why not just pick the coins that won't put you in immediate danger?

Be boring and pick up the most apparent bargains first

The best way to buy in the initial stages of a fear-driven market meltdown are blue-chip bond proxies like **Fortis** (TSX:FTS)(NYSE:FTS). Fortis is a highly regulated company that can continue generating ample amounts of cash flow, regardless of what happens with the coronavirus crisis or the severity of the recession (or depression) it'll surely leave behind.

Fortis is one of the most resilient businesses on the TSX. Its cash flow stream is so stable that it'll allow Fortis to raise its dividend at a time when many other companies will slash theirs entirely. Heck, I'd argue that Fortis is a much safer investment than any bond, especially for long-term investors.

The appetite for equities as a whole fell off a cliff, there was a shortage of cash, and the result? Fortis fell as though it were just as affected by the coronavirus as the average stock.

Fortis was supposed to be a safety play. But it didn't matter when the fear gauge went off the charts. Shares of Fortis plunged nearly 30% from peak to trough on the coronavirus crisis, but it didn't deserve to get hit that hard. Of all the businesses out there, Fortis was most likely to come out of the coronavirus crisis with its dividend and operating cash flow stream mostly, if not entirely, intact.

As the panic gradually died down, Fortis stock eventually corrected sharply to the upside, skyrocketing a whopping 25% off the bottom, bringing shares down less than 10% from its high.

Why did a bond proxy like Fortis recover sharper than your average stock?

It was easier to value the stock because regulated cash flows made the company more predictable than almost everything out there that's likely to face an unknown magnitude of earnings deterioration due to COVID-19.

Foolish takeaway

Buy stocks in your circle of competence that you *can* value first.

If you buy a stock that's going to faces great uncertainty because of COVID-19, you're going to have a tougher time analyzing a stock, and you could find yourself overpaying and losing big money, even after the pandemic is over.

Stay hungry. Stay Foolish.

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1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)

2. TSX:FTS (Fortis Inc.)

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1. Business Insider
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Date
2025/08/17
Date Created
2020/03/31
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