Is a V-Shaped Recovery on the Way for Stocks?

Description

The coronavirus (COVID-19) just surpassed one million infections worldwide, but some bulls are still calling for a V-shaped recovery. As the global economy braces itself for a massive double-digit percentage collapse in GDP for the second quarter, investors should seek to take a "risk-off" approach, as they look to buy the market crash.

At the time of writing, the **TSX Index** and **Dow Jones Industrial Average** are both down around 27% from their all-time highs, as investors brace themselves for the pandemic-induced recession. We'll only know the severity of the recession after the fact. Still, if history is any example, we could be in for another significant leg down in this vicious bear market.

The bear is a beast that can hang around for many months at a time, after all!

As such, it's vital to ensure your portfolio isn't overweight in cyclical stocks that depend on a quick economic recovery and a V-shaped recovery. We've heard the talking heads on TV called everything from a V-shaped rebound back to the market highs by year-end to an L-shaped rebound that could take many years for stocks to recover fully.

A V-shaped recovery coming? Or will it be more L-shaped?

Indeed, there are a tonne of conflicting viewpoints out there right now. As a Foolish investor, you need to ignore such shallow stock market calls and focus on improving your portfolio's risk/reward, with both the bull and bear cases taken into consideration.

Nobody knows if the market is going to be a V, W, U, L, or I shape until after the fact. But you shouldn't care.

V-shaped recovery or not, you should be ready for anything

Unprecedented actions are being used in these unprecedented times. Extreme amounts of fiscal stimulus may avert a long-lived economic disaster like a depression. But, of course, there’s no way to really know if a profound amount of stimulus can fight off the economic illness caused by a virus.

In a way, we’re witnessing an economic experiment for which we won’t know the results until after the fact. As such, investors shouldn’t try to bet on the outcome of extremely material contingent events, such as the effectiveness of fiscal stimulus or when the insidious coronavirus will exhaust itself.

Instead of wasting your time by trying to predict the unpredictable, do yourself a favour and ensure your portfolio is ready for whatever letter is thrown your way.

As a long-term investor, you need to stop asking the wrong questions, like when the bottom will be or what shape the recovery is going to be. It’s fine to be bullish, but now is a great time to hedge your bets, because there’s always a chance that a worst-case scenario could end up panning out.

Foolish takeaway

Bottom and V-shaped recovery predictions are too common in the mainstream financial media these days.

Sadly, they’ll do you no good as an investor, because they’ll only serve to fuel confirmation bias. Some investors seek information that they *want* to hear, and that’s the real danger in this kind of market, as investors may be pushed to exhaust their cash reserves too early on in the market rout.

Focus on improving your portfolio’s risk/reward and be prepared for whatever “letter” Mr. Market eventually throws your way. All you can do at a time like this is to ensure proper diversification and sufficient liquidity, as you look to add to your stakes on the way down as valuations become more attractive.

Stay hungry. Stay Foolish.

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Date
2025/06/30
Date Created
2020/04/03
Author
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