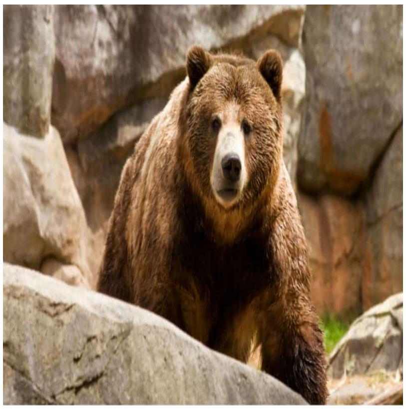

Market Crash 101: How to Invest During the Bear Market

Description

The market crash has surprised investors around the globe. One moment, we were enjoying one of the longest bull markets in history. The next, markets were falling by 30% or more. All of this came in a matter of weeks.

The best time to reestablish you investing principles is during a bull market. Yet this is exactly the time when most investors become complacent. The second best time to review your strategy is during a bear market, but you must act fast.

No one knows the future. The coronavirus market crash could end quickly, with markets normalizing by the summer. Alternatively, the bear market may have just begun, with second and third order effects just starting to surface.

Whatever the future holds, there are a few actions that you should take *today*. Don't delay.

Do this first

This is the least exciting action on this list: build or revise your budget.

When times are good, savers ignore building or maintaining an accurate budget. As long as there's more money coming in than going out, who cares, right? Wrong. There are two reasons why revising your budget should be at the top of your to-do list.

First, it gives you an opportunity to see where savings can come from. What are you biggest expense buckets? Where can spending be trimmed? If you lose your source of income or need to meet an emergency expense, you'll be glad that you did the prep work beforehand.

But you don't need to have a personal crisis to need more cash. Even if you're flush with income, identifying areas of bloated spending can be a big advantage.

That's because bear markets are the *best* time to be buying stocks for the long term. If there was ever a time to trim your expenses and up your investment contributions, it would be now.

Market crash tricks

All set with your budget? Your next step is to ensure that you’re properly using retirement accounts like a Tax-Free Savings Account (TFSA) or RRSP. If you’re not maximizing these vehicles, you’re giving away free money.

Any Canadian adult can open a TFSA or RRSP. With a TFSA, you contribute post-tax money, meaning you’ve already paid taxes on the earnings. In exchange, all growth and withdrawals are permanently tax free.

RRSPs use pre-tax money, meaning contributions are deducted from your taxable income, saving you money today. The money grows tax free, but withdrawals are taxed.

Whichever vehicle you choose, don’t neglect the free tax savings. If you haven’t maxed-out your contribution space for a TFSA or RRSP this year, this is where your dollars should go.

This brings us to the best market crash trick of all: automatic contributions. These are most powerful when combined with a TFSA or RRSP. Most brokerage accounts allow for these transactions, which automatically deposit a set amount of money into your investment account.

For example, you can set up a recurring deposit for $250 every two weeks. Now all you need to do is wait, and you’ll automatically be putting more money to work multiple times a month.

Don’t trust yourself to keep investing. Trust a computer. That’s what you get with automatic contributions.

Build your buy list now

Have a budget established? Are you investing with a TFSA or RRSP with automatic contributions in motion?

Your final step is to build your buy list. Understand exactly which stocks you like best, and determine which prices you’d be willing to buy at.

Not every stock you look at needs to be buyable right now. A market crash can turn a pricey stock cheap quickly, so you need to be prepared in advance.

Dirt-cheap stocks are everywhere, but it’s up to you to prepare your buy list and act when the time comes.

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