Market Crash Caution: 2 Big Mistakes to Avoid

Description

The COVID-19 pandemic is creating chaos throughout global stock markets. Here in Canada, we are witnessing a market crash that could be worse than the 2008 recession. Investors are afraid of the short-term health of the economy and their capital due to the frenzy of sell-offs.

With travel bans, businesses closing down, and increasing health concerns, it's not surprising that everybody is concerned. While I can't predict how long the situation will last, the short-term outlook is bleak.

The more successful investors must remember that the markets always recover. In the aftermath crash, some investors will always emerge stronger and wealthier.

Most investors, however, make critical mistakes that keep them from taking advantage of the market crash. I am going to discuss two mistakes you must avoid during this market crash.

Additionally, I will discuss a stock you should consider investing in to maximize the potential long-term benefits of the market crash.

Running out of cash

The last few weeks are showing us that investing 100% of your money in equities can be dangerous. Even when the economy is entirely healthy, the landscape can change in a short time due to unprecedented events, such as a pandemic. These black swan events are rare, but they can happen at *any time*.

Even the Oracle of Omaha, Warren Buffett himself, acknowledges that he can't predict everything — which is possibly why he was holding onto colossal amounts of cash assets. It is never a good idea to be short on cash in a market meltdown.

As an investor, you need to realize that you should have enough cash to see you through a recession. You should never find yourself in a sport where you need to sell stocks after a drastic decline in your portfolio just so you can meet day-to-day needs. Invest an amount that you know you will not need in the near- to medium-term future.

Trying to time the market volatility

I would highly discourage any thoughts of trying to time the market. Even Warren Buffett himself never attempts that. Timing the market with swing trading seems like an attractive option to consider.

It is one of the fastest ways to lose money on the stock market. Don't try to predict the next move markets will make in the economy.

Some investors even try waiting for the market to bottom out before they begin purchasing shares of high-quality companies. Sitting on the sidelines and holding out to buy at the bottom can put you at risk of missing out on exceptional opportunities.

Consider a long-term strategy

Instead of timing market volatility or waiting for the market to hit bottom, you should go for a reasonable and long-term approach.

You need to look for high-quality stocks trading for a discount. When you find assets that fit the bill, invest in the shares, and hold on to them for the long run.

There are chances that the share prices might dip a further 10% or even 20%. Still, the quality stock is on a discount compared to when the markets were healthy. You can take advantage of it now instead of risking missing out.

I think that the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is a stock you can consider to this end. It is one of Canada's darling blue-chip stocks and is trading for a massive discount.

The recent market crash has sent the stock reeling like the broader market. At writing, CIBC is trading for $79.01 per share, and it is down by almost 30% from its February 2020 peak. With the deflated share prices, it offers investors a mammoth dividend yield of 7.39%.

It's not an entirely risk-averse investment, however. CIBC has significant exposure to Canada's domestic housing market. The short-term risk due to loan defaulters and decreasing interest rates are creating a little concern for investors considering financial institution stocks. But with the government providing assistance along the way, the risk of investing in CIBC is significantly mitigated.

Foolish takeaway

If you can avoid making these two critical mistakes and devise a reliable long-term strategy with your capital, I think you can ride the wave of the recession better than most others.

Investing in a stock with substantial long-term potential could help you become a wealthier investor as the markets recover. CIBC could be an asset you can consider to reinforce your long-term strategy.

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