
2 Market Crash Mistakes That Can Cause Financial Ruin

**Description**

The situation in the stock market is dangerous and difficult to handle. Stock prices are falling so rapidly that it has become something of a rummage sale. The best course of action when the scenario is wild and crazy might be to not get involved. However, there are plenty of bargain hunters on the prowl.

Even if the stakes are high, two emotions are ruling. Once you allow fear and greed to take over, the chances of losses, if not financial ruin, are greater.



## Fear

The "buy low and sell high" rule perpetuates the fear of missing out on huge opportunities. However, because this market crash is unlike any other bear market, you need to be cautious.

Even if you think you've got the best deals, this recovery might take longer than you could imagine. The self-inflicted worldwide economic shutdown is an entirely development. Don't put yourself in harm's way by assuming you know what to expect.

## Greed

Greed is behind many investing mistakes. Scooping cheap stocks can be an opportunity for an enormous future windfall. However, the market is full of uncertainties due to COVID-19 and plummeting oil prices.

If you're buying a stock today simply because the price is cheap, then you're buying for the wrong reasons. The present situation requires a deeper evaluation of companies or businesses before making an investment decision.

## Dividends

Let us take, for example, the **National Bank of Canada** (TSX:NA). This bank stock is trading at a relatively cheap price of $56.94 per share. The share price of the sixth-largest bank in Canada has fallen by nearly 20% year-to-date, while the dividend yield is an attractive 4.99%.

If you're keeping abreast of developments on the TSX, you will know that many companies have announced dividend cuts to store up cash reserves. So far, National Bank hasn't made any announcement to that effect.

National Bank is one of the fiscally responsible banking institutions in Canada. It hasn't implemented a dividend cut since 2000. Also, this bank knows how to strike a balance between paying dividends to shareholders and keeping profits to plow back into operations and fuel growth.

Despite the beating and market sell-off, National Bank appears to have no plans of implementing a dividend cut or suspension. Market analysts expect that the payout on estimated earnings and estimated cash flow should be 42.7% and 31.8%, respectively. The expected dividend growth rate is around 4.4%.

## Beware of surprises



National Bank's veteran analyst Gabriel Dechaine said dividends from bank stocks are rock-solid despite projected lower profitability due to the market crash. Investors, however, are expressing concern that the rising dividend yields are not sustainable.

In the financial crisis of 2008-2009, none of the Canadian banks cut dividends. According to Dechaine, the payout ratio is a critical factor. The danger zone would be a payout ratio hitting 90%. It means the bank's earnings would have dropped by 40%.

COVID-19 is still spreading and the resolution of the oil price war is still hanging. It's not the time to be careless by allowing fear and greed to take root. Expect more surprises in the coming weeks.

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