Market Rally Warning: Another Crash Could Take Us Back to March Lows

Description

With stocks in “market rally” mode after the vicious coronavirus-induced market crash, many investors are buying back into stocks.

Don’t go all-in on this market rally

The worst of the pandemic may be in the rear-view mirror. However, investors must resist the urge to chase this market. As we learn more about the damage done to the economy by the lockdown, we can’t forget the possibility of another market crash.

Whether or not the stock market makes a return to March lows is anyone’s guess. I don’t think it will, but it could. Investors would be wise to be prepared for anything. That means maintaining an adequate liquidity position and spreading out your buying activity. Avoid going all-in on the expectation that this is a V-shaped market rally.

Do scoop up the stocks that you know to be undervalued if you’ve got the financial wiggle room. We’re in a stock-picker’s market right now. COVID-19 has rendered many segments of the market speculative or even downright un-investible. For self-guided investors who can pick their spots, there’s a great deal of outperformance to be had. The recent collapse in oil prices has weighed heavily on the **TSX index**.

There’s still a tonne of risk out there amid this market rally — manage it by picking your spots carefully

Mad Money host Jim Cramer thinks that investors should forget about index funds, which mix many good stocks with the toxic ones. He thinks investors should embrace buying shares of individual companies. I think he’s right on the money and would urge passive investors to dip their toes into stock picking. There’s never been a better time to do so after the post-crash market rally.

As a stock picker, you can avoid stocks in industries that are clouded by uncertainty. The TSX index gives passive investors overexposure to the most vulnerable sectors. Should the markets reverse, the TSX index could get obliterated. But if you pick your spots carefully, you can at least limit your downside relative to the broader indexes.

Consider shares of **Jamieson Wellness** (TSX:JWEL), a health and consumer staple play that recently surged to make new all-time highs amid the pandemic. I have pounded the table on the stock, praising the company for its defensive growth traits. I think these will allow the highly underrated company to continue faring well in the face of a recession.

Main Street is just starting to pay attention to Jamieson following its incredible 85% rally over the past year. What entices me most about Jamieson is the fact that it's riding on the back of a secular tailwind, making the seemingly boring vitamin-maker one of the most exciting low-tech growth stocks out there for the long haul.

Jamieson is a Canadian IPO success story. As the name continues to experience stable (or even increased) demand for its vitamins, minerals, and supplements through this pandemic, I suspect the stock could have a heck of a lot more upside over the coming months, regardless of whether this market rally holds.

Foolish takeaway

You don't need to be a "professional" money manager to limit your damages should this market rally be in for a sudden reversal. Embrace the self-guided investor journey and pick your spots to avoid the riskiest areas of the market.

Stay hungry. Stay Foolish.

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