This Market Rally Can Dissipate Quickly

Description

It's easy for investors to get excited about the market rally that we just had. The **TSX index** has rallied 25% from its low! However, the market rally seems to be losing steam.

default watermark

We're not exactly out of the woods with the COVID-19 situation. Moreover, we do not know the repercussions it will have on the economy and how extensive the damage will be.

Investors may hope for a V-shaped recovery, but other scenarios of a U-shaped or W-shaped bottom are more likely. Investors need to be prepared.

Here are three things you can do to take advantage of another market crash.

Market rally: Have some dry powder

You don't want to buy stocks at the top of this fake-out market rally and be stuck with the positions, unless you have a super long-term investment horizon.

The next earnings results that companies will report will reflect the COVID-19 damage done to their bottom lines. Even though the damage is generally expected to be temporary, it can drag down the market again.

Save as much money that's coming into your pockets as possible! It's better to save your paycheques and dividends over the next few months and add to stocks you've been eyeing on dips instead of buying now.

Market rally: Take some profits

In fact, I'll go as far as taking profit on some more speculative holdings in this market rally. For example, take profit in oil and gas producers like **Whitecap Resources** that have rallied more than 80% from its bottom. Likewise, book some gains in speculative high-growth stocks like **Lightspeed POS**

.

You can use the proceeds to organize how you will allocate money for your stock shopping list.

Here’s your chance to switch to quality stocks. You don’t necessarily need to take higher risk on speculative investments, though some investors might allocate 10% of their portfolios as “play money” to aim for quick gains in their Tax-Free Savings Accounts.

Will you allocate your cash to long-term core holdings or speculative investments with the potential of big gains or losses?

Review your stock shopping list

With cash on hand, it’s the perfect time to review your stock shopping list before the short market rally turns into another market crash.

You can take the conservative approach by focusing on quality companies.

To be even more defensive, start buying dividend stocks first. This way, you receive passive income that can roll into your pool of investment funds.

default watermark

Recent high-yield dividend stocks I bought are **BNS** stock, **H&R REIT**, and **Brookfield Property**. I expect the bank’s dividend yield of 6.4% to be rock solid.

However, I’m prepared for a temporary cash distribution cut of up to 50% in H&R REIT and Brookfield Property. Whether a cut (or how severe a cut is) will happen depends on how long retailers and businesses need to close down or run at limited capacities to fight COVID-19. Currently, H&R REIT and Brookfield Property offer yields of about 14%.

Should the market rally dissipate, investors should also consider companies with strong growth potential. Growth stocks I’d love to buy more of are **Alimentation Couche-Tard** and **Brookfield Asset Management**. They will surely make a strong comeback when the economy recovers.

Decide how much you will allocate to sectors on your shopping list and the price ranges of the stocks you would buy. Here are [three ways to buy stocks safely in a market crash].

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners
5. Tech Stocks

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred

4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners
5. Tech Stocks

Date
2025/07/29
Date Created
2020/04/30
Author
kayng

default watermark

default watermark