Market Crash 2020: Prepare Your Defences — Another Selloff Is Probably Coming

Description

If you think the worst is over with the coronavirus (COVID-19) crisis market crash and that we're headed for a V-shaped rebound to the top, you could be in for a nasty surprise as we move deeper into what could be the worst quarter since the Great Depression.

Market crash 2020: Beware of FOMO

This bear market rally has undoubtedly caused many investors to exhibit the FOMO (fear of missing out) mentality, as valuations continue swelling despite the massive uncertainties.

Goldman Sachs, which called the coronavirus crash with impeccable timing, recently warned that the stock market is headed for an 18% pullback within the next three months.

Goldman highlighted six reasons for why it believes that we're headed for another significant correction: rising COVID-19 infection rates outside of New York, the possibility of a longer-than-expected economic recovery (we could be in for more of U-shaped rebound), higher loan-loss protections, dividend cuts across the board, uncertainties relating to the 2020 U.S. presidential election, and continued U.S.-China trade tensions.

With trouble brewing on many fronts, investors undoubtedly have a tonne of things to be worried about.

To add to Goldman's list, investors ought to take a step back and consider the historic nature of prior bear markets. Many past market crashes have had more of a W-shaped (double bottom) type bounce off the bottom, and with a pipeline of bleak earnings and economic data that will be flowing in, I'd say the odds of a 20% retracement is high.

Market crash 2020: Beginners beware!

For many investors, this is their first bear market. You've probably seen your fair share of gardenvariety corrections with V-shaped recoveries, but it's important to note that this crisis-driven bear market is an entirely different beast.

A V-shaped bounce is no longer as likely as it was when the bull was roaring, so investors should brace themselves and be ready with cash on hand to buy stocks at lower prices should Goldman's dire prediction come to fruition.

Warren Buffett is opting to sit on his growing mountain of cash, and it'd be wise to follow in the footsteps of the Oracle of Omaha by maintaining sufficient liquidity so you'll be ready for whatever the unpredictable Mr. Market throws at you next.

Market crash 2020: The market may be *too* forward-looking at this juncture

While the stock market is forward-looking, with the **TSX Index** off a mere 15.5% from its all-time high, I'd argue that given the profound magnitude of uncertainty relating to the coronavirus and the severity of the ensuing recession that the markets are getting ahead of itself by focusing on a recovery that may not be sustainable without an effective vaccine.

Given that it takes around four years (and that's very optimistic) to produce a vaccine, we could be in for another few years' worth of intermittent lockdowns, and Buffett may end up looking like a genius (once again) for not biting on what could prove to be just the first leg down in this market crash.

How to prepare your defences

With too much optimism surrounding the duration of the economic recovery, we could be in for a real doozy over the coming months. That doesn't mean you should offload your stocks, though. Instead, you should rotate into defensives like **Emera** (TSX:EMA) and out of cyclicals so you're not caught offside on the next leg lower.

Emera is a highly regulated utility stock that will have your back once volatility hits again and the market crashes. The company has a safe dividend (currently yielding 4.4%) and will be minimally impacted by COVID-19 should this pandemic drag on a lot longer than most are expecting.

While Emera could still get hit in a collective rush for the market exits, I see shares as having dampened downside and a more abrupt recovery, and that makes the bond proxy-like play a terrific investment amid these highly uncertain times.

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