Be Prepared: The Market Could Crash Again in 2020

Description

The **TSX index** has recovered materially by about 29% since the March market crash bottom. However, we're not out of the woods yet.

There is still much turbulence under the seemingly calm market waters. Energy prices are at rock bottom and the march of the COVID-19 keeps on stepping over the ailing economy.

But don't worry. There are ways for you to prepare for another market crash.

Rock-bottom energy prices

The Government of Canada revealed that Canada's energy sector contributed to roughly 10% of the country's nominal GDP. As well, crude oil and natural gas make up about 56% of primary energy production in the country.

That's part of the reason why the market crashed so quickly earlier this year as oil prices jumped off a cliff from the US$60-per-barrel level.

WTI Crude Oil Spot Price data by YCharts

At writing, the West Texas Intermediate oil price is at about US$25 per barrel. This is rock-bottom levels over a 20-year range, as shown in the graph below.

WTI Crude Oil Spot Price data by YCharts

Lower demand for energy due to COVID-19 will continue to pressure energy prices, as inventories build up. Even blue-chip integrated energy stock **Suncor Energy** cut its dividend by 55% to adapt to prolonged low crude oil prices that it foresees staying for at least another 12 to 24 months.

Needless to say, many oil and gas producers had slashed or suspended their dividends as well. The hope is that the reopening of businesses can re-ignite energy demand. However, this can bring other problems.

COVID-19

The U.S. managed to flatten the curve in epicentres like New York and California. It is also progressively reopening businesses across the country. On the surface, it’s excellent news because the nation is Canada’s largest trading partner.

However, its national number is still marching higher in a linear fashion. Dr. Anthony Fauci, the country’s top infectious disease expert, warned that if the federal guidelines for a phased reopening are not followed strictly, multiple outbreaks could occur.

In other words, a reopening that’s too soon, too fast could bring a second wave of outbreaks and result in a U.S. economic lockdown again.

How to prepare

The progressive re-opening of businesses should increase energy demand — at least in the near term, which should usher energy prices higher. However, we can’t rule out the possibility of a second wave of COVID-19 outbreaks that can drag down the markets again later this year or early next year.

Investors should therefore be prepared by having some cash on the side. Holding a diversified investment portfolio helps, too. In terms of your stock portfolio, make sure you don’t have too much allocated in one stock.

Some investors keep a cap of 5% of their stock portfolio allocated to any single stock. For a $100,000 stock portfolio, you won’t have more than $5,000 allocated in any stock.

Generally, you want to spread your risks across different sectors and industries, as stocks in the same industries tend to move in tandem.

That said, technology, health care, and precious metals stocks have predominantly outperformed in this market crash, so you should explore those sectors first.

If you’re not sure what best to buy, start your research with these top stock ideas.

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