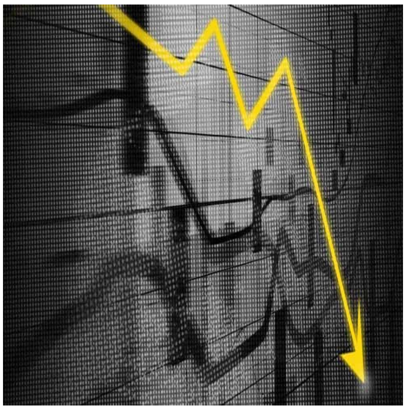

Market Crash: The Worst May Be Yet to Come

Description

The worst of the coronavirus market crash seems to now be in the rear-view mirror. Volatility has calmed, and it seems as though the previously “broken” market is back to normal.

There has been an unprecedented amount of fiscal and monetary stimulus, and that could avert a depressionary economic environment. Moreover, the U.S. and Canadian government could have even more stimulus coming soon, as they look to throw everything but the kitchen sink to limit the economic damage caused by the coronavirus (COVID-19) crisis.

Too many unknowns to reach a conclusion that stocks have bottomed

The consequences of excessive money printing are still unknown, and so too is the nature of the insidious coronavirus, which may be sticking around for a lot longer than most expect. With that in mind, it’s vital not to be complacent just because the stock market has been roaring again.

There are few historic comparables to this coronavirus crisis, so it’s hard to pinpoint the extent of the economic damage with any degree of accuracy. As such, it would be foolish (that’s a lower-case “f”) to conclude that the worst of this market crash is over with and that we’re headed for a sharp V-shaped recovery with a complete return to pre-pandemic norms by year-end.

Investors should be prepared for whatever happens next and have a backup plan should things take a turn for the worse, which means having a sufficient emergency fund and dry powder to nibble away at cheap stocks gradually on the way down.

Take a page out of Warren Buffett’s playbook

Warren Buffett is a wonderful teacher and guide for seasoned and beginner investors alike. The man is hardly an Oracle, as he couldn’t foresee or prevent the coronavirus-induced damage done to many of his top holdings. But the man is humble enough to acknowledge what he doesn't know and can adjust to new slates of risk as they come along.

Given that the lines between investment and speculation have been blurred across various industries in recent months, investors would be wise to heed Warren Buffett's warning by being "careful" how they invest in these incredibly uncertain times.

In a prior piece, I highlighted some reasons why the worst may not be over for stocks and why V-shaped rebound chasers were at high risk of holding the bag.

"For many investors, this is their first bear market. You've probably seen your fair share of garden-variety corrections with V-shaped recoveries, but it's important to note that this crisis-driven bear market is an entirely different beast," I said in a prior piece.

"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."

How to invest in the face of considerable uncertainty

The markets will always be an unpredictable beast. But with a depression as a potential worst-case scenario, investors should pick their spots very carefully. That means staying far away from stocks at ground zero of the coronavirus and having a preference for resilient firms that will have your back should worse come to worst.

Consider shares of "boring," defensive electrical services utility **Hydro One**, which, should the coronavirus crisis spark an economic depression, is a company whose shares you'd be glad to own.

The stock sports a 4%-yielding dividend that isn't going anywhere thanks to the regulated nature of the firm's operating cash flows.

The company has a virtual monopoly over Ontario's transmission lines, and while COVID-19 may delay capital investments and future dividend hikes, shares of the "super defensive" will still stand to hold their own better than most other stocks on the **TSX**. Growth was never the reason to own Hydro One stock.

The company is an "all-weather" bond proxy that can provide a solid risk/reward trade-off given the ridiculously wide range of possible outcomes.

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1. Investing

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