Here’s How I Would Invest $10,000 if the Market Crashes Again

Description

Another stock market crash could be just beyond the horizon. No one knows how long the economic recovery will take. Meanwhile, the growing threat of a second wave of COVID-19 cases and the prospect of a renewed lockdown have made businesses and consumers more reluctant to spend money.

If the growing concerns turn into another panic-driven market crash, I want to be well prepared. Here’s how I would deploy $10,000 to mitigate the downside risks.

Gold

Gold’s ability to retain its value is legendary. The precious metal lost some value during this recent crash but has quickly rebounded and actually created wealth for investors since then. The **iShares S&P/TSX Global Gold Index**, an exchange-traded fund that tracks gold, is up a whopping 38% year-to-date. Meanwhile, the stock market has lost 12% over the same period.

Gold mining giant **Barrick Gold** has had a much more impressive run. The stock is up 59% year to date.

For investors worried about inflation, the central bank’s relentless money printing policies and the risk of another market crash, gold is the ideal hedge. In fact, a number of noteworthy hedge fund managers have been betting on gold recently, which bolsters the thesis further.

Defensive stocks

The ongoing crisis has made it clear that some businesses are simply too “essential” to suspend. Grocery chains, medical centres and utilities are absolutely crucial no matter what happens to the economy.

I believe defensive stocks such as **Fortis** and **Dollarama** should be on every cautious investor's watch list. Both stocks have retained their value this year despite the market crash.

Liquid funds

Market crashes are immensely destructive, but they also present opportunities for savvy investors. When the market punishes high-quality stocks, it enhances the long-term growth potential for investors willing to take the plunge.

For instance, if you bet on **Shopify** or **Facedrive** stocks in mid-March, at the height of the crisis, you could have doubled or quadrupled your investment.

Keeping some cash on the sidelines is the best way to stay prepared for such opportunities. Parking cash in a liquid fund could generate a high yield for your money while it lays dormant. Consider adding exchange-traded funds such as the **CI First Asset High Interest Savings ETF** to your portfolio.

For cautious investors, cash acts as a buffer during crises. The world's most successful investor, Warren Buffett, has always kept a substantial portion of his portfolio in liquid cash. His cash pile is currently worth a whopping US$137 billion (C$190 billion). If the strategy works for Buffett, it should work for ordinary investors like us.

Bottom line

If you're worried about another market crash in 2020, there are three ways to protect yourself. You could deploy funds in defensive sectors such as healthcare and consumer staples or add gold to the portfolio. However, for contrarian investors like me, cash in a liquid ETF is probably the best option.

Having cash on hand allows you to move quickly and secure great deals if (when) the market collapses. Betting on growth stocks or high-quality brands when they're beaten down is the ultimate path to riches.

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