Market Crash: Is Your Portfolio Ready for a 2nd Meltdown?

Description

Another sharp correction should have been expected following one of the best relief rallies in recent memory. While it's comforting to have the U.S. Fed have our backs as investors, it's also tough to gauge the intrinsic value of certain hard-hit stocks with the coronavirus still lingering out there.

The stocks sitting at ground zero of the COVID-19 crisis (such as the airlines, cruise lines, restaurants, REITs, and cyclicals) led the downward charge on Thursday as major indices plummeted, with the **Dow Jones Industrial Average** shedding and **TSX Index** shedding 7% and 4%, respectively, on the day on news that coronavirus cases are spiking in select states south of the border.

COVID-19 hasn't gone away yet

The insidious coronavirus is still out there, even though the April-May rally would suggest otherwise.

Many euphoric investors seemed to have let the near-term good news of an economic reopening cloud the longer-term reality of the situation, which could have the potential to be very bleak if no effective vaccine arrives in a timely fashion.

The horrific selling has undoubtedly reminded us of the horrific February-March coronavirus market crash. And while the circumstances are less severe this time around, investors should seek to limit their exposure to the hard-hit COVID-19 plays by embracing a "barbell" portfolio to play both the bull and bear side of the equation.

With a portion of your portfolio in pandemic-resilient plays and the other portion in at-risk plays, you can tilt the risk/reward in your favour amid this ridiculously volatile environment that will likely last until a vaccine breakthrough.

While it's tempting to go all-in on airlines to punch your ticket to a chance at a multi-bagger to play such a breakthrough, we discovered over the last several days that doing so is also a good way to amplify your downside when the market rolls over again.

Not to mention that certain less liquid hard-hit firms may lead to unrecoverable losses in a worst-case scenario, where this pandemic drags on for years.

Flex your portfolio's muscles with a COVID-19 "barbell" strategy

In the face of great uncertainties, you should seek to be ready for whatever the markets throw at you next, whether it be a crash, melt-up, or something in between.

The case for constructing a COVID-19 barbell portfolio makes a tonne of sense since you stand to benefit in all events," I wrote in a prior piece, suggesting that **Air Canada** (TSX:AC) was one such play to have on the "risk-on" end of the barbell.

"A name like **Air Canada** on its own can be a reckless speculation. It's an all-or-nothing bet. An investor could lose their shirt if the coronavirus sparks another wave of lockdowns and more stringent travel restrictions."

During Thursday's violent turn of the tides, Air Canada plunged 8.5%, collapsing a grand total of 25% in just three trading sessions. If you didn't have a portion of your portfolio allocated to stocks resilient to the pandemic, such as **Shopify**, you would've gotten crushed.

Suddenly Air Canada is back in the mid-teens. While I wouldn't bail on the airlines as Warren Buffett did, I also wouldn't get euphoric on such at-risk names because they remain all-or-nothing speculation that only make sense for youngsters with disposable income that truly understand the risks.

Give the binary nature of this market (either there will be a timely vaccine breakthrough or not), investors looking to tilt the risk/reward in their favour ought to consider the barbell approach to balance downside risks and upside potential.

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