COVID-19: How Likely Are Further Lockdowns in 2020?

Description

COVID-19 is a socio-economic disaster that's decimated many sectors of the global economy. As Canada looks to reopen for business from the nearly three months of unprecedented lockdowns, there's no telling what the response will be.

Many provinces are reopening in phases for the summer. As exciting as this return to normalcy is, investors must realize that there's a risk that such re-openings could be rolled back should a second outbreak, such as the one going on in Texas, be in the cards.

The insidious COVID-19 is an unpredictable beast, and given that the likelihood of more bad news is high, retail investors should seek to limit their exposure to high-risk, high-upside names like **Air Canada** (TSX:AC), especially with a sizeable chunk of their Tax-Free Savings Account (TFSA) funds.

The smart money doesn't look nearly as fearless as the average retail investor

Many big-league institutional investors are taking it easy with the "all-or-nothing" spec bets, including the likes of "bankrupt bargains" like **Hertz** that retail investors have been piling into of late.

Most of the smart money has opted to go with more resilient, albeit pricier stocks amid great uncertainties. Unless you've got conviction in a high-upside spec bet like Air Canada, it may be a wise idea for you to invest more cautiously given that we could be exiting one of what could be many government-mandated lockdowns.

Don't go all-in on the V-shaped recovery from the COVID-19 crisis just yet

If you're still optimistic about a timely arrival of a vaccine by year-end, it makes sense to pick your spots in the most at-risk names out there, as long as you've got defensive positions that can have your back should no vaccine land and we're due for further economy-crippling lockdowns to bend another curve of infections.

That's why the "barbell" portfolio makes a tonne of sense for retail investors at a time like this. If you pick your spots carefully, you can position yourself to crush the markets, regardless of whether or not we're due for further lockdowns.

While the shot at potential multi-bagger gains from the likes of an airline stock is enticing for new investors, few seem to be thinking about a worst-case scenario, when a handful of the major commercial airlines go belly up amid the crisis.

Heck, even **Boeing** CEO David Calhoun has muted expectations for the recovery of the air travel industry, noting that it could take years to return to pre-pandemic levels and also acknowledging that a U.S. airline could be at risk of going bankrupt by year-end.

So, are more COVID-19 lockdowns coming over the next year?

Nobody knows. But investors should prepare for such a disastrous scenario with a portion of their portfolio so it's not taken to the cleaners should the most at-risk COVID-19 stocks crumble like a paper bag in the face of further coronavirus-induced lockdowns.

On its own, Air Canada stock may be a dangerous bet, but when put alongside a defensive dividend stock that's resilient in the face of the pandemic, the airline stock may be a compelling way to tilt the risk/reward trade-off that much more in your favour.

The "barbell" approach will help upside-seeking investors roll with the punches as they come along over the coming months.

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Date
2025/08/05
Date Created
2020/06/17
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