Will the Stock Market Crash Again?

Description

Is the stock market going to crash again? The answer is undoubtedly yes.

The bigger question is: Will the stock market going to crash again this year? While no one knows what the future holds, what's certain is that there's a lot of uncertainty out there.

We're not out of the woods yet with COVID-19. Otherwise, the CRA wouldn't be extending the CERB payments by two months. Trade wars, anti-racism protests, low energy prices, high debt levels, and the upcoming U.S. presidential election all affect the economy.

COVID-19 destroyed certain industries — hospitality, tourism (e.g., cruise and airline companies), and brick-and-mortar retailers. As a result, the GDP contributions from these industries are at unprecedented low levels.

How will the pandemic change the industries long term? By how much can they recover? These are some pressing questions for people invested in these areas.

Preparing for a market crash

It's probably a bad idea to sell all your stocks and sit on cash because the stock market tends to go up in the long haul. However, it doesn't hurt to prepare for a market crash by raising some cash.

To raise cash, you can consider selling these three types of stocks. In order of priority, sell speculative stocks, stocks you're highly concentrated in and fully valued stocks.

An example of a speculative stock would be **Teck Resources**. The demand for coal, zinc, and copper just isn't that great right now. The demand will drop further as global recessions are triggered by COVID-19.

The stock only makes sense as a short-term speculative trade or for investors with a very long investment horizon and plan to ride the cyclical wave. If you're preparing for another market crash this year or next year, you wouldn't hold Teck.

Your portfolio may be highly concentrated in a stock that has run up a lot. For example, **Shopify** stock has more than doubled year to date. If you have held the stock for a long time, it might make up 20% of your portfolio. In that case, you might cautiously trim the position to an allocation that you're comfortable with.

You might sell or trim fully-valued stocks to secure your gains, especially if they reside in tax-advantaged accounts like your Tax-Free Savings Account (TFSA) or RRSP.

What if the stock market doesn't crash this year?

It's a good idea to hold a core portfolio of stocks — quality businesses that you're comfortable with holding through thick and thin.

For example, many Canadians hold the big Canadian banks like **Royal Bank** (TSX:RY)(NYSE:RY) stock and **Toronto-Dominion** (TSX:TD)(NYSE:TD) stock, as a part of their core portfolios. Some investors fear for the Canadian banks in this economic environment that anticipates a rise in bad loans. As a result, they sell their shares.

As a good portion of the banks' returns come from their dividends, investors need to hold the shares to get that part of the return. If dividend investing is part of your strategy, it's reasonable to hold some big bank stocks even now.

In fact, one might consider adding to them opportunistically, while limiting them to, say 5-15%, of their portfolios.

Your core portfolio should be sufficiently diversified and may be invested in key areas like utility, technology, healthcare, consumer staples, and consumer discretionary stocks.

By holding a core stock portfolio, you'll participate in the long-term returns of the stock market, which historically outperform other asset classes.

The Foolish takeaway

No one has a crystal ball. The stock market might crash again this year, or it might crash next year or in 10 years. In any case, at this juncture, it's good to raise some cash and prepare a list of stocks to buy and the price ranges you will buy at.

If the stock market doesn't crash for some time, investors will still participate in market returns with their long-term portfolios.

With all the uncertainties this year, though, I'd advocate having a higher level of cautiousness and holding an above-average level of cash to wait to deploy them opportunistically.

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