



The Next Stock Market Crash Is Coming: Here's How to Prepare

Description

Another major stock market crash or decline is not out of the question for 2020. Many commentators have started airing concerns that stock markets are turning very frothy.

This week, money manager Jeremy Grantham [stated](#) that this “is a rally without precedence” and that “this is, in fact, becoming the fourth Real McCoy, bubble of my investment career.”

Markets could crash again

Considering the recent risky market behaviour, I think investors should begin to heed Mr. Grantham's concerns. The fact is, there are still significant [risks that could unravel markets](#).

There are risks surrounding a spike in COVID-19 again, U.S./China trade tensions, massive unemployment, and importantly, the U.S. election coming up. With all this, it is not unreasonable that the **S&P/TSX Index** could take a considerable pullback again sometime this year.

Here are a few tips that can help you position your investment portfolio both defensively and offensively for the next stock market crash.

Increase your cash stash

Firstly, investors can hold a little extra cash than normal. Stock markets just seem to be pricey considering the circumstances. So, if you believe the TSX could detract, then perhaps it is time to build up your cash stash. I'm personally increasing my cash holdings to between 10% to 15% of my portfolio.

If you are needing some cash, then perhaps take a little bit of profits from your big March market crash winners. Stocks like **Shopify**, **Real Matters**, **Docebo**, and **Kinaxis** have all +70% gains for the year and over 100% gains since March. While each of these are very good companies, they all trade at very high valuations. Taking a quarter or a third of a position off the table could be one way to increase your cash holdings.

Increase your weighting in safety

Secondly, if you are concerned about another stock market crash, then increase your portfolio weighting in low-beta dividend stocks. These stocks and their payouts can be a nice way to earn safe returns through market volatility.

One solid stock to hold in a market crash is **Algonquin Power**. It is a very safe place to invest your money. It is a regulated utility and renewable power operator that is steadily growing its cash flows by 9-11% annually. Right now, it pays a well-covered 4.6% dividend. This stock gives you defence and offence, regardless of any of the market risks mentioned above.

Prepare your market crash plan

Lastly, now is the time to prepare for the next stock market crash. If you are looking to take advantage of some future market fear, then start drawing up your buy list now. Look for companies that have significant growth tailwinds, strong balance sheets, and the ability to thrive, even through the pandemic conditions.

Some stocks I have on my market crash buy list include **Enghouse Systems**, **Richards Packaging**, and **Viemed Healthcare**. While I like these companies today, I would be happy to add to my positions at better prices or yields.

Stick to the plan and profit from the chaos

Ultimately, the best way to avoid emotional, irrational investment decisions is to have your investment plan ready before stock markets turn ugly. When stock markets do crash, remind yourself to think long term. Your portfolio could very well turn red, but remind yourself to stick to the plan and remember the elements of the companies (not the stocks) that made you invest in the first place.

By being prepared for the stock market crash, investors are better equipped to maintain their sanity and still capitalize in the midst of the market chaos.

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