



## Another Stock Market Crash Is Inevitable: What Should You Do?

### Description

In the 2008 financial crisis, the **TSX Composite Index** fell twice before returning to the growth trajectory. The first time it fell 31.5% in just one month, ending October 24, 2008. The second time it fell 23% between November 5, 2008, and March 6, 2009. It took the stock market six years to return to the pre-crash levels.

History could repeat itself in the current COVID-19 crisis. The TSX Composite Index fell 30% in March and rallied significantly over the next three months. But a second stock market crash is inevitable as the businesses and individuals face the aftermath of the pandemic.

While timing the second market crash is difficult, it might come somewhere in the fall of 2020. What should you do to protect your hard-earned money from another stock market crash?

### Don't sell in a sell-off

The stock market crashes when everyone sells in a panic. The first lesson is *don't sell in a sell-off* because you will not get a reasonable price for your stock due to lack of buyers. Indeed, you should not hold weak shares for long, because these companies are at risk of going bankrupt in an economic crisis.

But such stocks shouldn't be sold in the sell-off. For instance, Warren Buffett knew that [airline is the worst sector to be in](#) for the coming five to six years and so exited his position in airline stocks at a loss. But he sold them in April, a few days after the market bottomed on March 23.

The second big lesson is to refrain from selling good stocks in a sell-off. For instance, those who sold **Apple** stock in the March sell-off lost the opportunity to benefit from its rally from April onward. Now, the big question is what to sell and what not to sell after the second stock market crash.

### Sell capital-intensive risky stocks

Learning from the past crisis, companies with high leverage and negative cash flow are at risk of collapse. Creditors have priority over equity shareholders. When revenue falls due to weak demand, a company with high debt and low profits struggles to meet its expenses and is pushed into losses.

Fitch Ratings has downgraded the long-term debt of **Bombardier** and **Air Canada** due to a risk of default. The pandemic has disrupted the travel industry, pushing the two companies into deep losses. These losses have reduced their ability to repay

If you own any of the above two stocks, it is wise to sell them even at a loss before another stock market crash. Even if they survive the current crisis, they are unlikely to grow for the next three to five years. Staying invested in such risky stocks will block your capital, which could otherwise be invested in more promising stocks that can double in the next five years.

## Stay invested in fundamentally strong stocks even in a stock market crash

One big mistake you should avoid is selling a good quality stock in a stock market crash because you need money. Good quality stock is the one like Apple or **Amazon**, which has vast capital reserves, stable cash flows, strong dividends, sound management, high market capitalization, and future growth potential. Even if these stocks fall on significant market events, they will recover and continue to grow in the long term.

**Descartes Systems** ([TSX:DSG](#)) ([NASDAQ:DSGX](#)) is one of the largest providers of logistics and supply chain management software, with \$6 billion in market capitalization. Around 85-90% of the company's revenue is recurring in nature, giving it stable cash flows.

It has adjusted EBITDA margin of over 30% and US\$46 million in net cash. At a time when many companies suspended their outlook, [Descartes provided earnings guidance](#), as it has better visibility of its future revenue.

Descartes stock is currently trading at its 20-year high of over \$70. After falling 26% in the March sell-off, it recovered by rising 70% from its March low. If you had sold this stock during the March sell-off, you would have missed out on its 70% rally.

The stock's fundamentals and growth potential make it a buy even at its all-time high *and* after the next stock market crash.

### CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

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### **Date**

2025/08/22

### **Date Created**

2020/06/23

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