Got $5,000? Buy This Bulletproof Stock Before a 2nd Market Crash

Description

When investors as a whole start to discount the profound risk brought forth by the socio-economic disaster that is the COVID-19 pandemic, that is when you should be thinking about taking a bit of profit off the table before Mr. Market has a chance to catch everybody by surprise with a second market crash.

As we witnessed in the latter part of February, discounting highly uncertain and ominous exogenous events can have disastrous consequences for one's portfolio. Despite the unprecedented relief rally off those March lows, little progress has been made to eliminate the insidious coronavirus, with Arizona, Florida, and Texas becoming new hotbeds for what appears to be a second wave of COVID-19 infections.

A market crash can happen at any time

As reopening rollbacks become the primary driver of stocks over the coming weeks and months, and as the coronavirus grips the markets again, there's a real chance that we could be headed for another market crash. Regardless, investors should seek to adopt a risk-parity portfolio, so they're not left holding the bag with the most at-risk names should market momentum reverse violently on news of accelerating coronavirus infections.

This piece will have a look at two stocks to pick up right now if you've neglected the defensive portion of your portfolio, or if your portfolio depends on the timely elimination of the coronavirus.

Gold shines in times of profound uncertainty

Gold stocks are like an insurance policy for your portfolio. When the broader market melts down, and there's a liquidity crunch amid a panic-driven rush to the sidelines, gold stocks can hold their own. They're one of the few stocks trading in the green in a market-wide sea of red.

Like insurance, however, investors should limit their exposure to gold and gold miners, as they tend to get left behind when it comes time for the broader markets to bounce back. Moreover, whenever gold stocks are already in high demand (likely to weigh down the defensive portion of a portfolio), gold stocks can be pricey, and they can leave you in a tough spot if the market decides to meltup rather than meltdown, possibly on further U.S. Fed interaction.

Barrick Gold can help you combat a second market crash

Barrick Gold (TSX:ABX)(NYSE:GOLD) is my preferred gold mining stock for Canadian investors looking to hedge their bets. The company has faced a minimal impact on its operations from COVID-19 and is in a spot to rally as pandemic uncertainties continue to mount.

Unlike most other gold miners, Barrick is sufficiently diversified and can better handle wild swings in gold prices relative to many other gold miners that tend to be more sensitive to the underlying commodity. Gold isn't just a great way to help your portfolio lower its beta (ABX sports a 0.33 beta), but it's also a great inflation risk that pays a 1.1% dividend yield (it's not much, but for a gold miner, it's something!).

Many analysts see gold prices hitting $1,800 amid these unprecedented uncertainties. And while such heights are entirely plausible, investors would still be wise to limit their exposure to any gold miner, as gold prices are substantially higher than the mid-cycle price point of around $1,200-1,300. That leaves overexposed gold investors exposed to a severe downside should uncertainties suddenly fade in a good news event such as the arrival of an effective COVID-19 vaccine.

Foolish takeaway on gold and market crashes

Do hedge your bets, but don't go all-in on gold stocks, because there is risk in buying too much insurance, especially if prices are on the rich side.

For most investors, I'd recommend having gold comprise no more than 5% of a portfolio (maybe 10% if you're extremely bearish and nervous about volatility). For many investors, that means putting $5,000 of your $100,000 portfolio to work in a name like Barrick Gold.

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Author
joefrenette