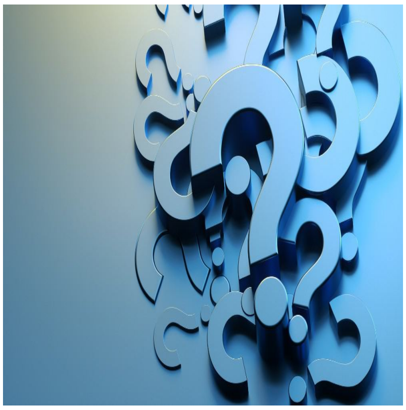

# Should You “Tail Hedge” for a Black Swan Market Crash?

### Description

The global phenomenon that is COVID-19 is what many analysts call a “black swan” event. It’s dark and morbid, because markets around the world are facing a significant amount of uncertainty. Stock markets, including the Toronto Stock Exchange (TSX), fell to all-time lows in March 2020.



Although indexes are bouncing back, the actual economic impact of coronavirus is still unknown. Nasser Talem, the author of the book *Black Swan: The Impact of the Highly Improbable*, told *CNBC* that individual and institutional investors should prepare to withstand big swings in economic conditions.

The author recommends the use of a tail hedge. If not, stay away from the market.

## Black swan

A black swan event is the worst nightmare of investors. It’s a term for an improbable and unforeseen circumstance. The effect of the pandemic is unprecedented and strange. Most stock markets are rising, even if COVID-19 is still around. The spread of coronavirus is re-intensifying and likely to prevent a sharp or quick economic recovery.

The U.S., Canada, and other nations are ramping up spending to cushion the pandemic’s impact. In Canada, the government’s COVID-19 Economic Response Plan will reach about $765 billion. The expensive stimulus package delivers financial support to businesses and individuals. It also includes tax and customs deferrals.

No one can anticipate a pandemic. COVID-19 exposes the fact that economies are not recession-proof. You can throw out economic modelling and risk assessment wherever you are in the world. A novel global recession is happening.

## Tail hedge

When risks are swirling in the market, Talem recommends a tail hedge. Tail-hedging is one strategy where investors can potentially limit losses in adverse markets. It can enable investors to stick with their positions through bad times and stay invested long term. Sometimes, it creates an opportunity to scoop risky assets at fire-sale prices.

If you're going to follow the advice and use the tail hedge strategy, your investment choice should be efficient and must work well during a crisis.

## Shining hedge

A shining example of a good hedge is **Barrick Gold** (TSX:ABX)(NYSE:GOLD), the world's largest gold producer. Gold, whether it's the precious metal or stock, is the traditional haven of panic-stricken investors. Barrick can provide liquidity and protection.

The shares of this $64 billion explorer and mine developer are outperforming the general market. Current holders are enjoying a 50.27% gain thus far. This top-tier gold stock is also paying a 0.75% dividend.

Barrick's mine operations and development projects are vast and cross the continents of North America, South America, Australia, and Africa. The company is one of Canada's fast-growing exporters of gems and precious metals.



A low-rate environment also favours the gold industry, as the price of the yellow metal could go higher. You can shake off the coronavirus if you own gold stocks. Some experts say gold stocks are the best assets to counter fiscal recklessness in 2020.

## Gold bug

The COVID-19 outbreak is impacting a lot of industries, and the effects will linger. Expect the market uncertainty to amplify as economies get hit next. You can be a gold bug to hedge against the black swan.

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