Unprepared for a Market Crash? Do These 3 Things!

Description

The pandemic-driven market crash that wreaked havoc on TSX in March and stock markets worldwide taught investors some valuable (and costly) lessons. One of the lessons, which is becoming more and more an inevitable reality, is that just because the market bounced back rapidly after the crash doesn't mean it has fully recovered. A full-fledged recovery will likely take months, and that's only if another crash doesn't come around.

As for a second crash, the probability of it coming is gradually increasing. Whether it will mimic the pattern before or take a different shape on the graphs is yet to be seen. But if you've accepted that a crash is coming, there are three things you can do to prepare yourself.

Unload weak stocks

In the March crash, you might've identified some troublesome stocks in your portfolio — stocks that had trouble recovering on their own. Even if the stars in their sectors regained their pre-pandemic valuations, these stocks had difficulty maintaining a straight track up.

If it doesn't clash with your overall buy and hold strategy, getting rid of these stocks might be in your favour, because if another crash comes when they are trying to recuperate after the first one, they might slump and not recover again for a very long time.

Plus, selling them would increase your liquidity, which will help you buy safe stocks.

Buy safe stocks

If you have a very growth-centric portfolio, the chances are that you have taken on a lot of volatility. A good idea would be to add a steady and safe Dividend Aristocrat to the mix, and one good candidate would be **Telus** (TSX:T)(NYSE:TU). It's one of the three largest companies in the telecom sector and a Dividend Aristocrat of 16 years.

It also offers a very juicy yield of 4.9%. The payout ratio is unsafe for now, but it will most likely settle down as the economy recovers.

Another reason to choose Telus is that it adds a little bit of capital growth to your portfolio a well. The last five years, especially when you combine the recent disaster, haven't been grand for the company's share price. But its long-term growth is decent enough. The 10-year CAGR comes out to 13.67%. As one of the three largest telecom companies in the country, it's operating in an almost no-competition environment.

Identify good stocks to buy during the crash

If you have stocks on your radar that you want to buy, but they are currently not desirably valued per your calculations, a crash would be a great time to buy them. One such stock can be **Empire Company** (TSX:EMP.A), which is just a little bit overpriced right now. And if another crash comes and knocks the valuation down (even if it's in early double digits), the stock would be very attractively valued.

It's a long-term Dividend Aristocrat, with 25 years of dividend increases under its belt. The yield isn't very attractive right now (1.48%), but the crash might change that as well. Its growth in the past three years has been incredible, and it resulted in a CAGR of 31.86%. As a consumer defensive stock, it can also help balance a volatile portfolio.

Foolish takeaway

Preparing for a market crash should be a bit easier for investors now, seeing as we've recently experienced a crash and recovery. We know which stocks and sectors are strong performers, and which stocks showed most resilient in the first crash. Observing the after-effects of the March crash can help investors better prepare for the one that may be looming ahead.

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1. Dividend Stocks
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