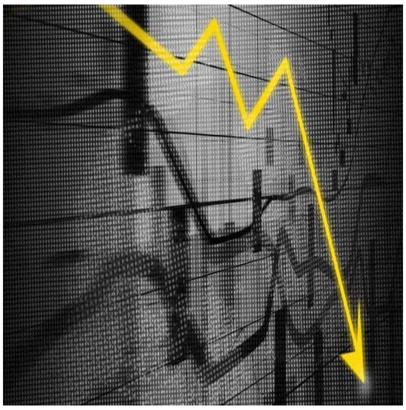

Market Crash 2020: 3 Key Strategies to Save Your Portfolio and Come Out Ahead

Description

This recent market reset has raised many eyebrows. Investors who sold on the down swing and failed to time the bottom may have actually lost money in an effort to time the market. This is a case study in why staying invested in good times and in bad is important.

Many investors are concerned about another leg down in the coming quarters but want to say invested. For these investors, I'd suggest hedging one's portfolio rather than turning to cash now. In this article, I'll discuss a few great hedging options investors can consider in this context.

Options strategies

The most effective hedging strategies, I believe, are those involving options. Buying and selling options is an advanced technique requiring a deep understanding of volatility and the statistical likelihood of stock price swings. For those interested in options-based hedging strategies, I would recommend talking to a financial advisor and doing a significant amount of research in this area first.

In general, buying put options for a long equity position allows an investor to protect against a desired level of downside stock price movement. Paying a small amount to lock in stock price gains can be worth it. This is especially true for those investors with highly risk-averse dispositions.

Options tend to be all or nothing bets, similar to insurance, and should be treated as such. In other words, avoid using options to speculate.

Diversify one's holdings

A great way to hedge one's portfolio is to diversify one's holdings away from high-beta equities.Another great option is investing in alternative asset classes with negative correlations to equities.Alternatively, adding low-beta equities to complement one's existing portfolio is another great option.Various alternative asset classes, such as private equity, real estate, and other difficult to trade assets,can be beneficial in a downturn.

Gold is a great example of an asset class that has historically followed a negative correlation to broader equities over time. Adding gold via physical bouillon, futures, or buying stocks in gold mining companies like **Barrick Gold** are all excellent ways to hedge one's portfolio. Owning a small percentage of holdings that increase in value when everything else drops can help smooth and returns over the long term.

Divest and wait

Selling or trimming positions that have significantly gained in value and waiting patiently for a down leg in the market is another option. However, this is my least-favourite option, as I am a believer in staying invested for the long haul.

That said, this strategy has some benefits. Letting one's dividend income sit as cash in one's portfolio and trimming some healthy gains in specific stocks one may be concerned about from a valuation perspective could provide a healthy amount of cash. A Foolish investor could then use this cash to take advantage of bear markets.

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