Will Clueless Investors Cause the Next Stock Market Crash?

Description

As the COVID-19 crisis struck, the initial sell-off frenzy in stock markets worldwide caused a significant decline. In March 2020, the **Toronto Stock Exchange** fell drastically, but has since raced quickly back to higher valuations. The unexpected rally was supported by an aggressive fiscal policy to provide the markets a necessary stimulus.

Investors who bought on the dip in March certainly benefited greatly from the recovery. Despite all the good news, it seems like several publicly traded companies are beginning to look overpriced. The prices for almost all the sectors of the economy are back to pre-COVID times despite a drastic fall in earnings for most of the companies.

According to the *Wall Street Journal*, the **S&P 500 Composite Index** has a price to earnings ratio of 32. It is drastically higher than a P/E of 23 just a year ago. What does this mean?

Another housing market crash

With everything that has happened so far in 2020, it would be wise not to rule out another significant crash. For many investors, the rapid recovery of stocks to pre-pandemic prices might seem like excellent news. However, it is necessary to remember that we are nowhere close to being out of trouble from the pandemic.

A second wave of infections could threaten most industries that are already anticipating long-term damage from the effects of COVID-19 so far. The increasing trend of investors going all-in with stocks and pushing the market into overbought territory could require little to set off another substantial correction.

Unlike the March crash, another stock market crash can have longer-lasting effects if there is no positive development in the fight against COVID-19.

Despite the harrowing possibility of another decline in stock markets, there are investments you can make that can weather the storm better than most.

Fortify your portfolio

Ideally, you need to look for defensive stocks that have a non-cyclical nature. Non-cyclical defensive stocks are equities that generally do not move with the broader market. One of the most well-reputed defensive industries to this end is the utility sector. Utility companies provide consumers with an essential service that people need even when the economy is drastically down.

One excellent example of a non-cyclical defensive stock you can consider adding to your portfolio is **Fortis Inc.** (TSX:FTS)(NYSE:FTS). Fortis is a Canadian utility company that provides gas and electricity across Canada, in the US and Latin America. The core service is its heat and light, an example of a staple service that consumers need regardless of financial circumstances.

Fortis has a proven track record for performing well during challenging periods. During the market crash of 2008-2009, Fortis recorded growing earnings for two years in a row. This was the same period where many massive companies went belly up. Fortis already grew its revenue as indicated by its first-quarter earnings report for fiscal 2020.

Besides its ability to generate stable revenue in challenging economic environments, Fortis also has a 46-year streak for increasing its dividends.

With positive numbers this year, this non-cyclical stock can continue growing its dividends in an environment where many dividend-stocks slashed dividends.

Foolish takeaway

With the possibility of another market crash that could be worse than the one in March, I would suggest preparing for it by diversifying your portfolio with reliable and non-cyclical defensive equities like Fortis. Defensive assets could be the high-quality Canadian stocks you need in your portfolio.

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