Beginners: 3 Lessons to Take Away From the 2020 Market Crash

Description

The 2020 market crash is now in the rear-view mirror. For many investors, the coronavirus sell-off our first *real* crash apart from the Fed-induced pullback back in late 2018, which felt more like a severe correction than a crash.

In February and March, stocks fell the fastest since 1987. Given how violent the initial wave of selling was, many new investors gave into fear, selling stocks at a loss, while many others stayed the course, but are now kicking themselves for not having bought anything before that V-shaped recovery.

If you're a beginner investor who was paralyzed by shock in the heat of the moment, you may not have bought much (or anything) in March. If you didn't sell stocks in the heat of the moment, though, you should think of yourself as a winner because odds are, you've (mostly) recovered from the meltdown.

Buying dips and crashes is easier said than done, and many of us learned this the hard way earlier in the year. Warren Buffett, the greatest investor of our time, didn't do a remarkable amount of buying when the market tanked either.

He, like you, didn't know a V-shaped bounce was coming, nor does he have any crystal ball that tells him where the markets are headed over the near-term. So, stop kicking yourself for not having navigated the 2020 market crash in an optimal fashion and treat the whole ordeal as a learning experience.

This piece will have a look at three main lessons from the 2020 market crash for beginners should takeaway.

When new risks arise, balance them in your portfolio

When the coronavirus hit, the markets largely shrugged it off until February 20, when the disruptive potential of the insidious virus finally set in. Back in January, when the virus was mostly contained to specific geographies, it was foolish (that's a lower-case "f") to underestimate the pandemic risk of the novel coronavirus.

It was tough to gauge the severity of the risk brought forth by COVID-19 at the time because nobody knew it would cause one of the worst pandemics since the Spanish Flu. But for prudent investors, it was a severe risk nevertheless. That's why I urged investors to sell all their shares of **Air Canada** back in January before they proceeded to lose over 70% of their value amid the 2020 market crash.

If a risk arises, you should gauge the full range of possibilities and prepare your portfolio accordingly. At the time, I saw barely any upside in airline stocks because of their overvaluation and their vulnerability to the threat of a rapidly-spreading novel virus.

Don't look for reasons to sell, because you'll find them

If you're feeling rattled after a significant downward day or week, please don't go searching for bearish financial content because you're going to find it, and it's going to feed your confirmation bias and your fears. Eventually, you'll run into a bear piece that you'll subscribe to, inspiring you to panic-sell stocks at a loss. Doing such is the biggest sin for investors. So, come the next market crash, don't go looking for reasons to sell because you will find them.

Sometimes you need to embrace the pain of going against the grain

Going against the grain is hard. It hurts, especially with people talking about the possibility of an unprecedented "global depression."

But after stocks decline excessively, sometimes you need to find it within you to hold your nose and buy something, anything.

The daily losses will rack up, and you'll be discouraged, but you need to persevere through such short-term pain if you want a long-term gain.

A novel virus and a pandemic in themselves are horrifying. Add plunging stocks into the equation, and it's hard to get into the mindset of buying shares. But as bargains are pitched you, you need to swing, regardless of what everybody else thinks will happen next.

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