Yes, COVID-19 Could Still Spark Another Market Crash: Here's How to Prepare

Description

It seems like a while since the February-March coronavirus market crash sparked fear into the hearts of investors. High-growth tech stocks have pulled the stock market higher over the past several months. However, there are still many affected areas of the economy that remain under pressure — pressure which may not be relieved until the advent of an effective coronavirus vaccine.

While it may seem like the worst of this pandemic is now in the rear-view mirror now that the **S&P 500** is at new highs, it'd be a wise idea to be more like Warren Buffett by curbing your vaccine optimism and being prepared for whatever Mr. Market pitches at you next.

The market crash is over… for now

Vaccine optimism and negligible interest rates on savings may be a driving force of higher equity prices over the next year. Still, it's important to remember that there's no telling what the next step is with this horrific pandemic. If this "new normal" lasts longer than most are expecting, various industries such as the airlines could lead to further investment losses. At the same time, stocks within such COVID-hit industries could have the most room to run once a vaccine breakthrough finally happens.

In any case, it's the job of an investor to weigh all scenarios and invest accordingly to maximize one's risk-adjusted returns, regardless of what they think the pandemic endgame will be. The bull case on stocks is that central banks will have our back as investors should another market crash happen.

Nobody knows how long such a "Fed put" can sustain the current disparity between the stock market and the economic reality, however. The longer this pandemic drags on, the more long-lasting damage could be done the economy, and the more ground the stock market has to lose.

If it turns out we're without an approved effective vaccine past 2022, things could have the potential to get ugly. On the flip side, if a vaccine breakthrough happens tomorrow, COVID-hit stocks could be on the cusp of an unprecedented melt-up.

Managing unprecedented risks

Warren Buffett knows that the stakes are high for betting on any one outcome of the binary exogenous event that is the COVID-19 pandemic. In response to such unprecedented uncertainties, he's hedging his bets and limiting this exposure to COVID-hit stocks so that he won't be made or broken by any single outcome of this pandemic.

Even if it means missing out on a multitude of gains if a bull-case scenario ends up panning out, Buffett knows that it's all about adjusting to risks as they come along to maximize one's returns when adjusted for risks.

Ready or not, another market crash is coming. Nobody knows when it will happen or if a worsening of the pandemic will be the cause. In any case, investors should seek to balance their portfolios with a "barbell" approach so they'll do well regardless of what ends up happening next with this pandemic.

Bringing your "barbell" portfolio back into balance

Barrick Gold (TSX:ABX)(NYSE:GOLD) is a great hedge against market volatility and the rising threat of inflation. Warren Buffett may have slammed gold as an investment many times in the past, noting that the shiny metal an asset that produces nothing over time.

What separates Barrick shares from most other gold mining stocks or physical bullion itself is that it *is* quite productive for investors. The dividend sports a relatively decent 1% yield and is slated to grow the longer an investor holds it.

While the dividend may not seem remarkable to most investors, when you consider the fact that you'll get the premium traits alongside the growing dividend, it becomes more apparent that shares of the premier miner are a smart buy for hedging investors.

Many portfolios, including Warren Buffett's, were blindsided by the coronavirus crisis. If you find you're overexposed to COVID-hit stocks, Barrick Gold is a terrific risk-off name to bring your barbell portfolio back into balance.

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