Market Crash 2020: It Could Happen at Any Moment Now

Description

2020 has been the year of pandemic, U.S.-China trade war, oil entering negative territory for the first time, and one market crash so far. There are still four months left, and 2020 might yet have some surprises left. One of them is most likely the second market crash in 2020. The warning signs are becoming clearer.

The last market crash was devastating enough, but the recovery was also swift. People who already considered the market too overpriced considered the rapid recovery a sign for another upcoming correction. The strengths of the underlying stocks and the market as a whole do not accurately represent the condition of the economy. It usually doesn't, but the difference is currently too high, and it's what's expected to bring about another brutal correction/crash.

Preparing for another crash

The easy part about preparing for another crash is identifying what you will buy when everything is on a discount. This process will be even easier this time, because investors know from the first crash which stocks are resilient and which ones are slow to recover. It also requires you to raise some liquidity (if you don't already have some free cash lying around), which brings us to the difficult part of preparing for a crash.

If you want to unload stocks that don't fare well during a pandemic, the first crash might have taught you about many "losers" in your portfolio. But the problem is that many such stocks haven't recovered yet. And if you want to get rid of them, you may have to do a cost-benefit analysis of selling them at a loss.

If it helps you buy stocks that can realize more gains and earn you more profit to cover the losses (and the tax implications of holding stocks for short terms), then selling at a loss might be a good idea. But this approach is a bit risky, and may or may not pay off. A more conservative approach would be to raise cash to buy discounted stocks in a market crash elsewhere and sell weak stocks in a year or so when they've properly recovered.

The winning stock

One of the stocks that you may want to keep an eye on during the next crash (and hope that it becomes reasonably valued) is **TFI International** (TSX:TFII). This nine-year-old aristocrat has been on a tear ever since it recovered from the crash. It's currently trading for a price 23% more than its pre-crash high and over 160% since its lowest valuation during the crash. If it can replicate its progress in another crash, it can double your investment in just three months.

Due to the massive spike in its valuation, the company isn't offering a very desirable yield at just about 1.77%. But if you buy it during a crash, the yield might be a bit more enticing. And whatever it lacks in dividends, it makes up for in the capital growth. Even before the current surge, it was a decent growth stock.

Foolish takeaway

Investing in a Dividend Aristocrat, especially one that's already proven its worth during a crash, might be a good strategy. You will have to decide whether to sell your stake in a year or so to realize potentially explosive capital gains that you would be entitled to for picking up the right stocks during the crash, or if you want to hold on to the stocks as a long-term investment.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TFII (TFI International)

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