Stock Market Crash in September 2020: 3 Key Things to Do

Description

The first week of trading in September 2020 saw selloffs across the board. Currently, it's just a dip with the U.S. and Canadian markets down about 3% and 2%, respectively.

It's too early to call it a stock market crash. However, many stocks — growth and value stocks alike — are trading at pricey valuations.

Watch out for pricey valuations

The COVID-19 pandemic impacts to the economy are very real, disrupting businesses from many areas of life, including hotels, restaurants, gyms, hair salons, dental clinics, veterinary clinics, etc.

The impacts are greatly shaving these businesses' revenues and earnings, as they are unable to operate at full capacity from lower demand and the prevention of the spread of the virus.

For example, one could argue that the big Canadian banks, like **RBC** stock, aren't as cheap as they appear in the near term. However, assuming they recover their earnings over the next few years, they would be considered discounted currently for long-term investment.

Investors have also piled into growth stocks like **Shopify** and **Lightspeed**, driving them to astronomical valuations. How does an enterprise value to next year's sales of 38.3 times sound for Shopify? Lightspeed is better at 15.7 times. But no one will argue that they aren't expensive. It's just a matter of if investors are willing to continue paying for these growth shares at high multiples.

Check for business survivability

Because of large cash burns in businesses, it becomes all the more critical to analyze the survivability of a business before investing in greatly impacted businesses.

One key metric to check is the current ratio, which *Investopedia* explains as "a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables."

Generally, we want to see a company's current ratio to be at least one. However, certain businesses could survive with a lower current ratio. So, it could make sense to instead compare a company's recent current ratio to what it was a year ago.

For example, **Cineplex's** revenues dropped 62% and posted big losses in the first half of the year. Its current ratio of 0.1 times in Q2 was scarily low compared to 0.4 times a year ago.

MTY Food Group's current ratio was much better at 0.6 times compared to 0.5 times a year ago. In the current stressful environment, turnaround companies like Cineplex and MTY Food Group are better positioned to have a higher current ratio than normal.

Decide on your stock portfolio allocation

Visualize the key areas you want your stock portfolio to be invested in for income or growth depending on your financial goals. For example, I'd want to be in technology, e-commerce, healthcare, utilities, banks, and REITs — the first half for growth and the second half for income.

The latter group also provides growth, albeit in a different way than growth stocks. Value stocks can generate outsized price appreciation on their valuations' reversion to the mean.

If I want equal growth and income, I can split the portfolio 50/50. If I want more growth, I can go for 80/20, for example.

The Foolish takeaway

At the end of the day, it's about investing in great companies that can grow your money via growth or income and aiming to pay fair or discounted valuations on them.

A stock market crash may just give you better opportunities to do so. Therefore, select the wonderful businesses you want to own and decide on what prices you'd buy them ahead of time to be prepared!

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