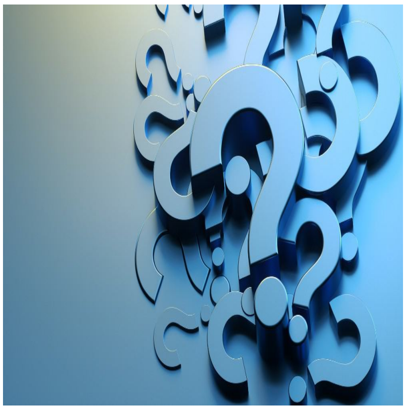

Frothy Fall: Are We Facing a Stock Market Crash?

### Description

It's an odd thought, given the events of the past year to date, but the next market crash really could come out of nowhere. This week, strategists have been confused by the market selloff, but have largely brushed it off as meaningless. But this is as dangerous as it is short-sighted. There is always a catalyst, even if it takes a macro vantage point to see what it is.



## Investors should stay on their toes this fall

Pundits have been advising investors to stop and catch their breath this week. Granted, panic selling helps nobody. But there is a huge amount of risk in the markets right now. There is a North American recession underway, a pandemic without a vaccine and it's a U.S. election year. It won't take much to spook investors. Indeed, by many analysts own admissions, this week's selloff wasn't caused by anything at all…

But it could get worse. March saw one of the worst contractions on the stock market in history. The fact that an actual worldwide pandemic was underway hit investors all at once. And it could happen again. Look to the U.S. in particular for stressors. Dried-up economic stimuli; a November election result unpopular with investors; or even an escalation of international tensions all have the potential to unnerve the markets.

## Navigating the tech stock selloff

One of the reasons why analysts can't understand why the **Apple** and **Tesla** stock splits caused such frantic buying is that they might not be able to get a handle on the people who were panic buying those stocks. But both names went viral across social media on Monday. Much of the buzz was being generated by apparent newcomers who didn't seem to understand how stocks work. These were simply seen as big names going cheap.

Social trends plays a big part in investing. However, sociology as a science tends not to crop up very often in investment punditry. A very basic reading, though, might characterize 2020's market momentum as being partly driven by new investors using zero-commission platforms. Concerns about income are through the roof as unemployment ratchets up. That's fuelling risk and creating a fearless new form of bullishness.

In other words, a new type of pandemic-bred investing is overheating the markets. And it's dangerous. The backdraft this week cost Apple 8% and Tesla 9%. **Microsoft** ditched 6%, with **Alphabet** close behind. Even the mighty **Amazon** lost 4.6%. This is not normal, or even healthy. In no prior year would these types of contractions be a sign of anything other than an impending market crash.

While it might seem counter-intuitive, there are several positive ways to play a market crash. First, step back and evaluate. Take a look at what names are in your stock portfolio. Overvalued names with poor performance should be trimmed.

Meanwhile, draw up a shopping list. Decide upon entry points and split positions into segments. Buying into weakness will not only help to reduce outlay but will also reduce the risk of capital loss.

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