Another Market Crash? Buy Stocks to Beat the Risk

Description

Risk is back with a bang. It started with a realization that stocks are overvalued. Then it continued as the prospect of a second wave of coronavirus infections could impact the markets. Now comes the prospect of an embattled OPEC and its non-OPEC colleagues forced to review oil production on a grim demand outlook. In short, all the uncertainties that the summer's bullishness had plastered over are converging.

Other sources of uncertainty are also piling up. The Fed indicated that it could keep rates low for years, which led to market dips around the world. Meanwhile, **Goldman Sachs** suggested a strengthening Chinese yuan. Treasury yields are retreating, inflation looms, and the U.S. election is imminent. All this, and there's still no vaccine. Fearing a market crash amid all of this is probably a sign of sanity.

Get defensive and know what stocks you hold

The summer saw the pandemic usher in a new breed of momentum investing geared towards a quarantined society. But as we have seen in recent weeks, overvalued stocks are dangerous in the current market. And a much sharper contraction could be just around the corner. This is no longer the time for speculative plays, therefore. Investors should take a cue from the March selloff and study what happened.

There are three main ways to play a repeat play of the market crash. They're the same three ways to play any market. Buy, hold, and sell. But when equities are twanging with risk, there's another way to tweak this three-pronged approach. Simply put, when uncertainty strikes, investors should buy defensively, hold defensively, and sell defensively. The key, though, to reducing capital risk, is to make smaller moves and to make them more often.

But which stocks belong in which category? Stocks to go super long on include undervalued utilities, insurance, and banks. These names have taken a battering this year but will improve in the longer term. But don't buy all at once. Feather your portfolio with smaller amounts of these stocks and keep cash on hand to further add to positions as the market worsens. Focus on defensive, large-cap, widemoat names.

Check your exposure and carry on holding

While it may be tempting to sell oil stocks, some high-quality names such as **Enbridge** are probably worth holding. In the long term, the case for hydrocarbons is looking fairly weak. But despite the rise of the green economy, there is some juice left in Canadian oil and gas. So, consider holding the biggest names if they're fairly valued.

Stocks to sell include any overvalued tech stocks that seemed like such a good idea in mid-July or August. Look at dangerously valued speculative plays such as **Facedrive**. Anything that has been underperforming should also be sold off. But do so in stages, selling only when the market is up. This will avoid the risk of realizing heavier losses. At the end of the day, investors should also balance risk by diversifying and avoid overexposure.

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