How to Play the Stock Market Crash 2.0

Description

The second stock market crash is inevitable. Billionaire investor George Soros, in his book *Alchemy of Finance*, talked about the two concepts of fallibility and reflexivity. He explained that market participants' view of the world is incomplete and distorted (fallibility), which leads them to take inappropriate actions (reflexivity). These inappropriate actions help informed participants to make money.

default watermark

The commission-free trading apps collect data that tells them what retail investors are buying, and then they place their bet against them. This way, they make profits on retail investors' money. Hence, instead of buying stocks for the short term without understanding the fundamentals, buy stocks that you understand.

Build a portfolio that can withstand a stock market crash

You can protect your portfolio from the stock market crash 2.0 and even make money on the crash by following four steps:

- Exit loss-making investments.
- Invest in growth stocks that are resilient to the pandemic.
- Hedge your portfolio from a downturn.
- Set aside some money to buy your favourite stocks when the market hits the bottom.

Exit loss-making investments

The first step is to exit loss-making stocks that show no signs of growth for the next three years. For instance, if you own **Air Canada** stock, it will take another five to seven years to resume growth.

Warren Buffett exited airline stocks and many of his bank stocks but increased his stake in **Bank of America**. He has always loved banks and financial institutions. But he changed this strategy, as banks are exposed to a huge amount of credit defaults that will be triggered once the loan and mortgage deferrals end. The Big Six Canadian banks have set aside $6 billion in provision for credit losses.

It is not clear how much credit losses banks might incur. It's better to stay away from bank stocks until there is clarity on the future repayments of loans and mortgages. Hence, it's better if you sell your airline and bank stocks and put your money in investments that can grow your money during this time frame.

Invest in resilient growth stocks

The second step is to use the proceeds from the above sales and invest 50% of it in resilient stocks like **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX), which generated average annual returns of 20% in the last five years. Even this year, the stock surged more than 20% after factoring in the March sell-off. What makes Descartes resilient to the economic downturn is its diversified customer base and critical nature of its supply chain management software. The company will thrive in the post-pandemic world, as logistics and supply chain becomes the biggest challenge, amid the rising trade disputes and the surge in e-commerce.

Some of Descartes's customers in the retail and airline sectors will return to using its software as the economy recovers. Moreover, its stable cash flows and around $30 million in net cash give it the financial flexibility to withstand the crisis. It is a growth stock to hold on to for the long term.

default watermark

Another stock that can give you returns during a downturn is high-quality dividend shares like **Enbridge** and **RioCan REIT**. These stocks allow you to lock in high dividend yields of 8% and 9.5%, respectively. These shares are not completely resilient from the pandemic. But they have stable cash flows, which make them financially flexible to withstand the crisis and also pay dividends.

Hedge your portfolio through diversification

The third step is to hedge your portfolio either through diversification or by buying gold stocks. Buffett invested around US$560 million, or less than 2% of his portfolio, in **Barrick Gold**. Gold as such doesn't generate returns, but investors use gold stocks to hedge against inflation. You can also adopt the George Soros approach and buy market ETFs like the **iShares S&P/TSX 60 Index ETF**. It gives you exposure to the top 60 shares on the Toronto Stock Exchange.

An individual share may or may not recover, but the stock market will. The market ETF will help your portfolio recover with the market.

Set aside cash

The last step is to keep some cash aside. As Buffett says, the market crash is an opportunity to buy good-quality stocks at discounted prices.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks

4. Energy Stocks
5. Investing
6. Metals and Mining Stocks
7. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Energy Stocks
5. Investing
6. Metals and Mining Stocks
7. Tech Stocks

default watermark

Date
2025/08/22
Date Created
2020/09/17
Author
pujatayal

default watermark