



Market Crash 2.0: Don't Make These Mistakes

Description

The recent correction in the **S&P/TSX Composite Index** rang the warning bells. The stock market has been rallying on the back of the Justin Trudeau government's fiscal stimulus package.

As part of the COVID-19 Response, the Canada Revenue Agency (CRA) gave away \$2,000 cash in unemployment benefits to Canadians who lost their jobs because of COVID-19. These benefits increased the household's disposable income, and people put this money in the stock market, driving the TSX Composite Index to new highs.

Why is September crucial for the stock market?

The month of September is critical for Canadians, as the CRA is replacing the Canada Emergency Response Benefit (CERB) with recovery benefits. The [September CERB payments were delayed](#) by a few days, as the CRA put in place extra security layers after the cyber attacks.

Canadians who have been relying on the CERB for their living expenses got desperate, and the stock market saw huge selling in the first two weeks of September. This was probably because Canadians cashed out some investments in the stock market to manage their expenses. However, the market recovered this week, as the CRA credited the CERB payments.

The stock market will see another testing point at the end of September when the Canada Recovery Benefit (CRB)/Employment Insurance (EI) replaces the CERB. The government will pay these recovery benefits in arrears near the end of October. This switch will create a gap in liquidity. The stock market that has been rising on the back of this liquidity bubble could see another major sell-off.

Don't make these mistakes in the stock market crash

A few days' delay in the CERB payments pulled down the TSX Composite Index by 4.4%. A four-week gap in benefit payments could pull down the index by double digits. When the stock market sees another dip, don't make these mistakes:

- Don't sell virus stocks you purchased during the rally for a loss.
- Don't buy airline or bank stocks just because they hit the bottom.

Don't sell virus stocks in a market crash

Another stock market crash is inevitable. The virus stocks that facilitated pandemic-driven lockdown drove the stock market rally in the past few months. The pandemic changed the way people live and work. Even the population that was reluctant to adopt digitization went digital. E-commerce, remote working, and online payments became the new normal. This is driving virus stocks like **Shopify**, **Lightspeed POS**, and **Cargojet** to record-high valuations.

If you purchased these stocks near their highs, don't make the mistake of selling them at a loss. These companies are growing by strong double digits. Another market crash will pull down the prices of these stocks. But they have the potential to recover in the post-pandemic economy.

Don't buy loss-making stocks

While it is important not to sell good stocks that can thrive in the post-pandemic economy, it is equally important not to buy stocks that will report losses and profit cuts in the coming few years. The Oracle of Omaha, Warren Buffett, who once loved bank stocks, also offloaded his bank stocks over fears of the default wave.

The top six Canadian banks have set aside \$6 billion in provision for credit losses. If the loan defaults exceed their expectations, their profitability could take a significant hit. This default risk has prevented bank stocks from recovering from the March sell-off. There is a high possibility that they may not recover from another market crash.

The same logic applies to airline stocks. **Air Canada** stock lost 75% of its value in the March sell-off. Since then, it hasn't recovered much and is still down 63% year to date. This is because the airline is burning cash, as the international travel restrictions put its planes on the ground. Operating at just 10% capacity, it reported a [\\$2.8 billion loss in the first half](#) and is heading towards a \$4 billion loss for this year. Buying Air Canada stock is like funding their losses.

Warren Buffett says the first rule is never to lose money, and the second rule is don't forget rule number one. The market crash is not a time to panic and sell, but to stay calm and stay invested in the right stocks.

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