



Is a 2nd Lockdown and Stock Market Crash Inevitable?

Description

When the coronavirus crisis erupted in March this year, the nation's economy was put on lockdown, and the stock market crashed like never before. Investors were worried about the impact of a prolonged recession and mass unemployment. Now, it seems like those threats have re-emerged.

The number of new cases discovered in British Columbia and Ontario have been escalating in recent weeks. Ontario premier Doug Ford admitted that if the case numbers stayed bleak, the province could be shut down yet again. That could put millions of jobs, households, and the stock market in jeopardy.

Here's how you can prepare yourself for these risks based on how the previous stock market crash played out.

Bet on essentials

During the lockdown, nearly every business was ordered shut besides the ones deemed most essential. In the country's biggest provinces, this meant convenience stores, utilities, medical centres, cannabis retailers and banks remained open.

The best example of an essential business that sailed through the previous crisis was **Dollarama** ([TSX:DOL](#)). The stock is up 9.3% year to date and 39.1% from late March. Business across Dollarma's outlets was booming, as people stocked up on essential goods.

Now, the company is in much better shape to reinvest that cash and sustain its growth rate. The company's stronger balance sheet means it could avoid the dip if the stock market crashes again. If you're looking for a robust buffer to market volatility, this is the perfect candidate.

Escape tangible businesses

Restaurants, car washes, offices, and malls were all abandoned during the previous lockdown. As foot traffic disappeared, these capital-intensive businesses saw their sales plummet. The impact rapidly spread to their landlords.

Real estate investment trusts, airlines, and private equity firms that own small businesses all saw tremendous losses. If another lockdown is imminent, you might want to steer clear of these stocks.

Invest during the stock market crash

Some companies benefit when families are confined to their homes. Digital giants like **Shopify** saw their sales surge, as online shopping became the only alternative for millions of families across the world.

Investors who bet on Shopify stock during the downturn in mid-March, are now up 180%. Another stock market crash could create similar opportunities. Contrarian investors with cash sitting on the sidelines should deploy it when stocks dive. Eventually, these contrarian bets could deliver stunning returns.

Bottom line

I've been concerned about a second wave of coronavirus cases and renewed lockdown for months. Countries across the world have faced a resurgence of this horrible crisis. Now, investors must prepare for this eventuality and secure their portfolios.

I believe the best way to prepare is to invest in essential businesses. Another great way to prepare is to have some cash on the sidelines. This cash can be deployed into technology and essential businesses when the stock market crashes. Taking advantage of lower prices could help you secure your portfolio for the long haul.

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Author

vraisinghani

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