2 Smart Ways to Play a Stock Market Crash

Description

This week's selloff has seen stock markets sustain heavy losses. While we're not quite in March selloff territory, the red ink has investors spooked, and understandably so. Among the sectors selling off are financials and gold, two of the support struts of the TSX. So, how should investors proceed this week? Let's examine two broad strategies that could help to safety-proof a low-risk, multi-decade stock portfolio.

Build stock positions on weakness

One way to offset capital risk is to take a more dynamic approach to investing. This will require a little more maintenance but will pay off in the long run. Investors should break down the desired size of their positions in favoured stocks and buy in stages. Instead of timing the market, investors can disregard the "bottom" and simply buy when their stocks are in the red.

Adding smaller amounts of shares as markets deteriorate allows a cautious investor to build positions during the frothiest of markets. This makes capital loss less of a risk, since investors are not simply backing up the truck on perceived value. Monday's selloff began a multi-day value opportunity that has seen names such as **Enbridge** (TSX:ENB)(NYSE:ENB) losing ground. Wednesday saw a continuation of the selloff, with Enbridge down 1%.

Know what you hold…

Another way to play the market is to recession-proof a portfolio. Again, this takes a little bit of extra effort, but laying the groundwork now will reap dividends later. There are a few ways to get a stock portfolio ready for an extended recession. One way is to trim dead wood from your list of stocks. Again, this should be done when target stocks are positive. Trim into strength to lessen your losses.

In effect, this is the converse to building on weakness. It can also be used in concert with other recession-proofing techniques. Another way to reduce recession risk is to get to know the companies that you are invested in. Once a shareholder understands the business that they are part owner of, it will make it harder to sell shares. This will aid in a buy-and-hold strategy, which is always at risk of the temptation to sell too soon.

… and hold what you know

The flip side to getting to know what you hold is buying shares in companies that you are already familiar with. Brand loyalty can go a long way when it comes to a buy-and-hold strategy. Cashing in shares too soon is one of the biggest risks to a long-term investment strategy. Identify which names satisfy your long-term goals and keep cash on hand to snap up battered shares in your wish list names.

Enbridge is one of the strongest wide-moat names on the TSX. Its dividend yield is rich and, at 8%, satisfies both long- and short-term portfolio styles. For instance, a retiree seeking near-term passive income might add Enbridge to a suite of stocks built around high performance within narrow financial horizons. Conversely, the ambitious new investor seeking the richest yields might also buy Enbridge on weakness this week.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

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vhetherington