



3 Reasons the Market Will Crash Again in 2020

Description

Investors have known for months that this market is unstable. With so much uncertainty, and an economy on the brink of a major financial crisis, it's inevitable that the market will crash again.

Initially, when the market crashed back in March, it was defensive stocks that rallied first.

Investors recognized these businesses, such as utilities and [consumer staples](#), would be only minimally impacted. So, any defensive stocks, and especially those that yielded cash flow, were bid up by investors to stabilize portfolios ahead of this pandemic.

Soon after, however, a lot of **TSX** growth stocks followed in a market rally that's largely been based on the speculation of a remarkable recovery in 2021.

Here are three reasons why the market will almost certainly crash again in 2020.

An ailing economy could cause a market crash

The economy is still hurting. Despite a pretty incredible recovery by most of the economy, there remain big issues with unemployment. Many industries continue to be affected by the pandemic, so naturally, many employees are still without work.

Up until now, there has been plenty of stimulus to help the economy along. This can't last forever, though. As the stimulus ends, and more and more people run out of emergency savings, look for more delinquencies and bankruptcies.

Plus, we have only just begun the recession, and we still don't know yet what the full consequences will be. As these start to show, look for a big potential market crash.

Second wave of coronavirus

That talk of the economy doesn't even take into account the effects of a second wave. In Canada, it

looks like if the second wave is bad enough, there could be further shutdowns similar to other countries worldwide.

This is going to have a big impact on economies. But even in countries like the United States, which may not fully lockdown, if people are scared to go out and, most importantly, spend, that could have a significant impact on an economy that's already reeling.

So, don't count out a second wave of coronavirus, which already looks to be materializing, as a cause for another market crash.

Bubble in stocks

Stocks have run up considerably in valuation since March. This could easily be what starts or amplifies another market crash this year.

There are many stocks at new all-time highs, and while some industries have understandably been positively impacted by the pandemic, such as tech, some stocks are trading for more than they were before the economy had to deal with a massive pandemic.

This major run-up in stocks is dangerous, and the market is prone to considerable volatility every time the uncertainty increases.

So, what does this mean for investors today?

How to prepare for a market crash

To prepare for what looks like an inevitable market crash, investors will want to do a few things.

Firstly, you need to make sure you have adequate diversification. You'll also want to make sure that whatever companies you own, you are committed to for the long term.

Secondly, if you don't already have a decent cash position, you may think about adding to that. Cash is king in a market crash. Plus, not only can you use it to buy new stocks, but you may also need it for an emergency. So, if you raise cash now, then you won't have to sell your stocks after the market has crashed.

If you feel you already have a significant cash position, then the last thing you may want to do is consider adding some more defence to your portfolio.

A defensive stock like **North West Company** would be ideal. Not only will it be less volatile in a market crash, but it will also see far less impact from a recession than many other TSX stocks.

That's probably why as the market has been selling off the last few weeks, North West has been hitting new [52-week highs](#).

Bottom line

The market is highly vulnerable to another crash in 2020, so ensure you proceed with caution and own only the highest-quality TSX stocks.

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