Market Crash: Don’t Overlook This Major Risk

Description

With a considerable amount of liquidity being pumped into this market, investors may find themselves between a rock and a hard place.

On one end, the markets look to be in a fragile state and could be in for a vicious correction amid a worsening pandemic, with U.S. stimulus that’s apparently delayed until after the presidential election. On the other end, an accommodating U.S. Fed appears committed to keeping rates low for two to three years, even if it means letting inflation rise above the desired 2% target. If we are due for a V-shaped recovery, there’s no question that inflation could get out of hand, and savers could take a big hit to the chin.

Like during the brutal sell-off we had back in February and March, there may be no place to hide once the next market crash hits. Mr. Market will likely pull the rug from underneath investors when they least expect it, and not even gold, bonds, or Bitcoin will be immune to a steep decline. Historically uncorrelated assets may make investors feel safe, but the only true hiding place in a cash crunch or market with a liquidity trap set is cash. Unfortunately, cash is also the asset that faces huge opportunity costs that could increase alongside the rate of inflation coming out of this crisis.

So, what’s the solution?

With potentially no places to hide from volatility in the next cash-crunching market crash, you’ll want to have some cash sitting on the sidelines to be ready for the bargain-basement prices that will accompany the next big market sell-off, as it may be tough to liquidate uncorrelated investments such as bond funds without taking a potentially sizable hit.

As prudent as it is to have some of your wealth in cold-hard cash, investors should still have a strong preference for equities, especially those with swollen dividend yields at cheap valuations. When value becomes great again through the eyes of Mainstreet, it’s these such stocks that could provide the most bounce back from a stock market implosion that would stand to drag everything down with it.

Such value stocks will not deserve to be sold off in the next meltdown, but they’ll still likely be pulled down in an "everything sell-off." Consider scooping up shares of **Fortis** (TSX:FTS)(NYSE:FTS) in the next market downturn. Shares sport a terrific 3.7% yield and will stand to be unjustly dragged down alongside almost everything else.

Despite sporting a low beta, which makes the stock likely to be a lone green arrow in big down days, Fortis's resilient operating cash flow stream and low correlation to the broader TSX Index will not mean much when the next big one hits. As margin calls come flooding in, there could be another rush for cash. And it's stocks like Fortis, which don't deserve to be hit, that you should seek to load up on should panic grip this market once again.

Foolish takeaway

Fortis is a dirt-cheap utility that's able to hold its own under normalized market conditions. Given the current environment is anything but normal, the cheap stock could stand to become much cheaper, and that's when you'll want to put your cash reserves to work!

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