Should You Take Profits Ahead of the Next Market Crash?

Description

The September correction (or market crash) may not be over yet, at least according to analysts at **Morgan Stanley**, who believe that a 10% pullback could be in the cards at some point over the next two months.

Undoubtedly, many folks have been bracing themselves for a vicious sell-off as coronavirus cases have been soaring in various localities. Ireland recently imposed strict lockdown measures amid their coronavirus resurgence. If that's a harbinger of things to come, North America may be in for another round of stay-at-home orders next month should the insidious coronavirus become too hard to control, even with masks and social distancing.

Could another 10-20% market crash be lurking around the corner?

With a U.S. presidential election to add to the long list of things to worry about, the risk/reward trade-off, on the whole, is unattractive here with the ugly technicals. But as Jim Cramer once put it, there's always a bull market somewhere. And if you're a self-guided stock picker, you can scoop up the bargains that exist today without running the risk of feeling the full force of another market correction.

And if you're one of many investors who've doubled or even tripled their investment over the last few months, now is as good a time as any to take some profits off the table before Mr. Market has a chance to pry them back as a part of the coming correction. That way, you'll enough dry powder to take advantage of opportunities that may arise from an overreaction to the results of the U.S. presidential election or widespread lockdowns to help curb the spread of COVID-19.

Taking profits was never meant to be easy

If you've already got cash on the sidelines or Tax-Free Savings Account (TFSA) funds that have gone uninvested, you shouldn't feel the need to make any drastic changes with your portfolio other than a modest trimming of your biggest winners such as **Shopify** (TSX:SHOP)(NYSE:SHOP), which may take an amplified hit come the next inevitable correction.

I know it's tough to part with your winners, especially those that have been doing almost all of the heavy lifting for your portfolio. A white-hot name like Shopify still has a profoundly powerful long-term growth story and equally strong pandemic tailwinds. With few apparent dents in Shopify's armour, it can seem foolish (that's a lower-case "f," folks!) to hit the sell button in the midst of a seemingly unstoppable rally.

The Shopify story is the most attractive it's ever been. But I find that little has changed over the last 100% worth of rally. The stock now sports a steep valuation (62.4 times sales) that I find tough to justify given the risk that Mr. Market could turn his back against the biggest winners of the first three quarters.

Foolish takeaway on profit-taking before a market crash

Yes, breaking up with your biggest winners like Shopify can be hard. In some ways, it's like a betrayal to a name that's made you a considerable amount of wealth. In the face of another vicious sell-off, though, it'd be wise to at least take a small profit off the table, so you'll be able to buy more shares for far less after the next market-wide pullback hits.

A name like Shopify is in a spot to experience amplified downside as a part of a correction, even though there are few fundamental flaws with the underlying company at this juncture. To justify a bit of profit-taking today, you can picture yourself scooping up more shares on a pullback as you lower your cost basis on a name that could

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