3 Investing Strategies to Survive a Stock Market Crash

Description

Your investing strategy should be appropriate whether the market crashes next week or the next year or even if the market continues to gain momentum to touch record highs. In case you are worried about market volatility in the future these three strategies will help you tide over the uncertainties.

Bet on market leaders

It is advisable to allocate a significant part of your investments to companies with large economic moats, strong leadership positions, and robust balance sheets. In times where the market is swinging wildly, it makes sense to bet on market leaders.

So, shifting some wealth from a small-cap fund to a large-cap dividend-paying fund can help you add stability.

Book profits

In the last decade, high growth tech stocks have been on an absolute tear. Even in 2020, the market recovery since March has been primarily fueled by tech giants. For example, **Shopify** stock has returned over 6,000% to early IPO investors in less than six years. This makes companies trading at a premium vulnerable in a market sell-off.

You can hence minimize chances of having to liquidate your investments at a loss by addressing your future cash needs, especially if there are big purchases on the horizon. Investors can liquidate a part of their holdings and set aside proceeds for emergency payments or any other essential purchase, such as the down payment of a house.

Diversification is key

Investors should avoid having exposure to any single company, sector, or asset class. You can also allocate a portion of your savings to low-risk bonds and diversify into other asset classes such as gold and real estate as well.

Real estate can be an effective hedge against market volatility as property values are much more stable than equity prices. Further, gold tends to move in the opposite direction of the market.

So you can look to buy stocks such as **Barrick Gold** (TSX:ABX)(NYSE:GOLD), a company where Warren Buffett recently picked up a stake. The Oracle of Omaha bought 20.9 million shares of Barrick Gold in Q2.

Gold prices have been on an uptrend since 2018. Further, the COVID-19 pandemic and quantitative easing measures have devalued the U.S. dollar which is another driver for gold prices.

In 2019, Barrick Gold sales were up 34% at US$9.71 billion while EBITDA margin improved to 46.8%, up from 41.7% in 2018. This helped the gold mining giant to post a net income of US$3.9 billion in 2019.

Now, the company expects all-in sustaining costs of up to US$970 per ounce and the gold spot price is now closer to US$1,900 per ounce which provides it enough room to expand earnings at a fast pace. In the first half of 2020, Barrick Gold generated close to US$2 billion in operating cash flows and spent US$960 million in capital expenditure.

Analysts tracking Barrick Gold expect the company's earnings per share to rise by 104% in 2020 and 41% in 2021. We can see the stock is considerably undervalued given its price to earnings multiple of 25.8.

Wall Street has an average target price of US$34 which is 27% above its current trading price.

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