3 Moves That Can Protect Your Savings From a Market Crash

Description

The equity markets continue to remain volatile in what has been a forgettable year for investors. The COVID-19 pandemic brought multiple industries to their knees, leading to a significant drop in consumer spending. Canada's unemployment rates touched 13% in May, which meant the federal government had to step in and pay billions of dollars in benefits to Canadians impacted due to COVID-19.

While the markets have staged a strong comeback since touching multi-year lows in March, industry experts believe the rebound is not sustainable given the structural issues impacting global economies and investors should brace for another market crash.

So, what do you do if the market crashes again?

Do not time the market

No one can exactly predict when a market crash will occur. It is impossible to time the market, and you should instead focus on investing a small portion of your savings every month. This way you can benefit from market peaks and troughs and multiply your savings at a steady pace.

In the long term, equity markets are your best bet to create wealth. For example, if you invest $300 a month and generate annual returns of 7%, you will have a million dollars at the end of 35 years.

Further, a market crash will provide you with an opportunity to buy a quality company at a lower price allowing you to get more bang for your buck.

Have some emergency cash

Do not invest money you will need in the future and put at least six months' worth of savings in an emergency fund. If the market crashes and you need to withdraw money, it will mean you are selling your investments when stock prices are significantly lower.

Optimize your asset allocation

While equity markets have created massive wealth for long-term investors, it is extremely volatile in the short term. For example, several global indexes fell over 35% in just over a month earlier this year. This means a $100,000 investment in the S&P 500 at the start of 2020 would have fallen to $65,000 by March.

You need to diversify your holdings and lower risk significantly if you are closer to retirement. So, if you are nearing retirement age, it makes sense to take a conservative approach, as a market crash could easily wipe out your savings.

Even if you are looking to buy stocks, you need to identify quality companies such as **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) that have several growth drivers. Brookfield stock has generated returns of 18% annually since the start of 2000 and has been one of the top-performing companies on the TSX.

It has also increased dividends at an annual rate of 6% in the last 20 years and expects to increase the payouts between 6% and 9% annually in the upcoming years. Brookfield is an ideal stock for retirees due to its forward yield of 3.3%. Further, its rapidly expanding addressable market makes it a top pick for long-term growth investors as well.

Brookfield has a diversified portfolio of renewable energy assets spread across 17 countries with a cumulative capacity of 18 gigawatts, up from just three gigawatts in 2015. The world will shift towards renewable energy sources, and Brookfield's leading position in this space makes it one of the top bets right now.

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