Prepare for a Stock Market Crash (but Hope for a Recovery)

Description

Monday saw a lot of red ink splashed across the markets. Several factors came together to weigh on stocks. Chief among the culprits were rising coronavirus cases. However, there was plenty of scope for worry in other areas. Investors were also on the back foot thanks to an oil outlook top-heavy with overproduction, and ongoing uncertainty over the U.S. election.

Oil stocks were particularly hard hit. In addition to production concerns, the possibility of an anti-oil administration south of the border furthers weighs on the hydrocarbons space. News of a major Canadian oil merger also got investors selling their fossil fuel stocks Monday morning.

Some big names are still in the red

What should investors do when they're optimizing a portfolio for two wildly different possibilities? The low-risk option is to simply sit tight, keep calm, and carry on holding. Is that basket of stocks – be in a TFSA, RRSP, or other portfolio type – already recession-proof? If so, hibernating through increased market volatility might be the ideal solution for investors with low-maintenance portfolios.

However, investors with more leeway when it comes to risk can make use of a choppy market. Instead of timing the bottom (or indeed, the top) of the market, these investors can "massage" a portfolio by building and trimming. At base, this strategy involves building positions by snapping up shares on weakness. Conversely, underperforming names can be trimmed while they are rising.

Buying stocks in a volatile market?

Oil stocks and shares in the Big Five are key asset types to look at in the next couple of weeks. Names such as **BMO** (TSX:BMO)(NYSE:BMO) and **Pembina Pipeline** (TSX:PPL) could see increased volatility around the election. Each of these names is a dividend-paying stock of high quality. Pembina is particularly notable for its 8.9% dividend yield and impressive market share.

Down 3.6% over the last five days at the time of writing, Pembina could see further choppiness in the coming weeks. As a midstreamer, though, Pembina is apt for long-term oil and gas investing with a pipeline infrastructure focus. Having lost around 40% of its market value in 12 months, this is a quality stock selling at bargain basement prices.

BMO is a play for its wealth management exposure and the potential for upside from an economic recovery. One of Canada's Big Five bankers, BMO pays a rich 5% dividend yield. Investors expecting shares to get knocked down by election froth should keep some cash on hand and get ready to build a position on a selloff. Down 16% year over year, BMO is already a snip, though, and could bounce back in 2021.

Holding BMO and Pembina in a portfolio can add a bit of backbone to that long-range wealth creation plan. Either name could satisfy a recovery rally strategy. With the potential for sudden upside next year, a BMO-Pembina tag team could see a steep share price recovery. BMO could see 25% upside, while the midstreamer has a high target estimated at almost double the current share price.

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