3 Steps to Finding the Best TSX Shares to Buy After the 2020 Stock Market Crash

Description

The 2020 stock market crash isn't quite over yet. With the broader markets pulling back on U.S. election fears and increasing coronavirus cases, we could easily see the recent bout of weakness drag into year's end. In many prior pieces, I warned investors not to disregard **Morgan Stanley**'s correction call. With the broader markets now just a terrible day away from falling into correction territory, I'd urge investors not to overreact following last week's brutal decline. I think the Band-Aid has already been ripped off and would be more inclined to be a buyer of **TSX** shares than a seller.

While this correction could easily evolve into something more sinister this November, I'd continue to be a buyer on the way down, as the markets are now abundant with bargains. So, instead of trying to time the bottom of this latest stock market crash, I'd urge investors to go on the hunt for the babies that have been unfairly thrown out with the bathwater.

Without further ado, here are three tips for finding the best deals amid the latest sell-off while minimizing your chances of suffering amplified damage if it turns we're still in the early innings of a brutal stock market crash that could bring us to the depths in March.

Be wary of pandemic-resilient momentum stocks

What worked in the February-March 2020 stock market crash probably won't work the next time around.

While pandemic-resilient tech stocks are poised to continue doing well in a worsening of this crisis, the valuations of many such names have gotten out of hand. Even a name like **Shopify**, which is riding high on pandemic tailwinds, could be dealt a heavy hit as a part of an "everything sell-off."

As we discovered last week, not even Shopify's big earnings beat was enough to prevent the stock from falling in conjunction with the broader markets. The price of admission to many pandemic-resilient names is excessively high, and while they're a great hedge against a worsening of this crisis, one must never lose track of the price they'll pay.

Remember, even the best stock with the most powerful of tailwinds can be a sell if the price is not right. Many of today's pandemic-resilient winners that have been vastly outperforming in the first three quarters, I believe, fall into the category.

Look to the most unloved industries for deep value

If you want to beat Mr. Market at this own game, your odds are greatly improved when you go on the hunt for deep value within unloved industries that most others have shunned. Deep value investing isn't everybody's cup of tea, as it can improve an immense amount of short-term pain for the improved chance at bagging a long-term gain.

If you're willing to take on short-term pain for a greater chance at an outsized long-term gain, I think names within the beaten-up restaurant scene (think **Restaurant Brands International**) are screaming buys while they've been ditched by fearful investors who are too fearful of owning such names that will continue to feel the full force of the coronavirus impact.

But don't try to be a hero!

While you should look to the industries that others have been shunning, I wouldn't try to be a hero with some of the hardest-hit names on the **TSX Index**. Firms sitting at ground zero of this crisis, like **Cineplex**, may be at risk of insolvency in a drastic worsening of this crisis.

When putting your contrarian hat on, you must pay careful attention to the state of the balance sheet. If a said firm doesn't have a liquidity position to survive a worst-case scenario, whereby the pandemic drags on past 2022, it may be wise to look elsewhere.

Being a hero can come with massive rewards. But it can also end in tears. So, unless you've got an appetite for speculating, I'd say there are far better places to invest after a stock market crash.

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