3 Key Things I'd Do in the Next Stock Market Crash

Description

It is extremely difficult to predict when the next stock market crash will occur. However, history suggests that it is only a matter of time before investor sentiment declines and equity markets come under pressure.

Of course, stock market declines can provide buying opportunities. By taking a long-term view and purchasing a diverse range of companies with wide economic moats, it may be possible to capitalise on a likely recovery.

Taking a long-term view during a stock market crash

While a stock market crash is very likely to take place at some point in future, it is also equally likely to ultimately give way to a bull market. After all, indexes such as the FTSE 100 and S&P 500 have always experienced bull markets following their various bear markets.

As such, it may be beneficial for an investor to take a long-term view of a market decline. In other words, falling share prices are very unlikely to last in perpetuity. Therefore, there could be buying opportunities on offer that deliver impressive returns in the long run.

Clearly, looking beyond the short term is difficult during a stock market crash. Many investors panic. This could lead them to sell holdings and, in doing so, influence their peers to do likewise. However, by ignoring the views of other investors and instead focusing on the long-term recovery potential for stocks, an investor may be able to more successfully navigate a market decline.

Buying companies with wide economic moats

Of course, some companies may not recover from a stock market crash. For example, they may have weak balance sheets that cause financial difficulties in a period of more challenging economic performance. Similarly, companies that lack a competitive advantage may struggle to deliverimpressive profit growth compared to their sector peers.

Therefore, buying companies with wide economic moats could be a shrewd move. They may feel the negative impacts of a period of economic weakness to a lesser extent than their peers. This may be due to lower costs, brand loyalty or a unique product, for example. Those same attributes may also lead to stronger financial performance in the long run that translates into a relatively sound share price outlook.

Diversifying in a market downturn

Buying a wide range of companies in a stock market crash could help to reduce overall risks. After all, it is unclear which sectors and regions will recover at the fastest pace.

By having a broad spread of companies within a portfolio, an investor can reduce their reliance on a small number of holdings for their returns. They may also be able to access a broader range of growth opportunities than would be possible in a concentrated portfolio. This may improve their growth prospects as the stock market recovers.

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