



3 Reasons Why I'd Start Preparing for the Next Stock Market Crash Today

Description

Determining when the next stock market crash will occur is an exceptionally difficult task. This year's market downturn showed that they often appear without any forewarning.

However, the track record of the stock market shows that they occur fairly regularly. As such, it may be a good idea to start preparing for the next one today. This may help an investor to take advantage of temporarily low prices to generate high returns in the likely long-term recovery.

Another stock market crash

The 2020 stock market crash is not an isolated occurrence. In fact, equity investors are likely to experience a number of market downturns, corrections and bear markets during their lifetimes. The stock market is, by its very nature, dependent on cycles that can sometimes cause significant declines in its value over a short period of time.

Of course, the stock market has delivered high single-digit annual gains over the long run. However, its progress has been disrupted numerous times by periods of decline. Therefore, investors who can prepare themselves for periods where lower share prices are available may be able to capitalise on undervalued stocks. Buying a company when it trades at a discount to its intrinsic value may mean there is greater scope for capital growth over the long run, as investor sentiment and operating conditions can improve.

Short-lived market declines

This year's stock market crash also showed how quickly downturns can take place. For example, the S&P 500 declined by over 30% in little over a month as investors became increasingly concerned about the prospects for the economy.

Furthermore, stock prices rebounded extremely quickly. In fact, within 11 weeks of reaching its lowest point in March 2020, the S&P 500 had gained over 40%. As such, investors who were not prepared for

a market decline would have found it extremely difficult to respond. This may have meant that they missed out on low stock prices that ultimately were not available for very long.

Heightened risks

The potential for a stock market crash appears to be relatively high at the present time. Risks such as Brexit and the coronavirus pandemic may weigh on investor sentiment over the coming months.

As such, preparing today for the next market decline may be a good idea. Investors may wish to hold some cash within their portfolio so that they are in a position to react to temporary low prices. They may also wish to conduct due diligence into prospective purchases now so that they are ready to go ahead and buy them should their prices move to more attractive levels. And, it may also be a good idea for investors to check that their existing holdings continue to have investment appeal after what has been a challenging year.

By preparing for the next stock market crash, an investor can put themselves in a better position to capitalise on it. Over time, this may lead to higher returns as the market recovers.

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