



Market Crash 2.0: How I'd Prepare for the Next Market Selloff

Description

The prospect of a second stock market crash appears to be relatively high at the present time. Risks such as the ongoing coronavirus pandemic and a weak economic outlook have the potential to cause investor sentiment to decline.

Although a market slump is not guaranteed, preparing for it now could be a sound move. After all, the stock market has never made gains without experiencing declines along the way.

Through identifying high-quality companies to buy in a market decline and reassessing current holdings, an investor could put themselves in a good position to capitalise on lower stock prices in future.

Reassessing current holdings ahead of a stock market crash

A stock market crash often coincides with a weak economic outlook. Therefore, it could be a prudent move for an investor to reassess their current holdings to ensure they have the financial strength to survive a period of weaker operating conditions.

For example, businesses with low debt levels and significant headroom when making interest payments may be better able to survive a period of weak demand for their goods or services. Similarly, companies that have access to large amounts of liquidity may be in a superior position to overcome exceptional operating conditions such as those put in place from lockdown measures in 2020.

A stock market crash can also negatively impact overvalued shares to a greater extent than their cheaper peers. Highly-valued companies' share prices may include lofty investor expectations that, if not met, could lead to a sharp decline in their valuations. As such, it could be a sound move for an investor to check that their current holdings appear to offer fair value for money.

Preparing for buying opportunities

A stock market crash can cause high-quality companies to trade at low prices. This can provide buying opportunities for investors who are able to capitalise on them. Therefore, it could be a good move to hold some cash at the present time. The 2020 market decline lasted for only a matter of weeks before a sharp recovery took hold. Therefore, investors may not have a great deal of time to react to low stock prices.

Similarly, it may be a profitable move to identify buying opportunities before they come into existence. In other words, analysing stocks and deciding which ones to buy should they fall in price prior to a market decline may save an investor a considerable amount of time. This could make it easier for them to take advantage of a fall in the stock market's price level.

Equity market outlook

As mentioned, there is no guarantee that a stock market crash will take place in the coming months. However, with risks to the global economic outlook being high, it may be prudent for investors to make some preparations so that they are in a good position to react positively to future equity market developments.

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