Market Crash Alert: What Goes up Must Come Down

Description

Investing in stocks has risks, because the market is never predictable. If you can transfer people's day-to-day behaviour or routine to the stock market, then everyone would be rich. Unfortunately, it won't happen. The only sure thing is that prices will rise and fall.

Innate behaviour of the stock market

Stocks behave depending on emerging or prevailing market or business environments. Since the market comes in cycles, traders rely on trends or patterns to make profitable investments. The key to successful stock investing is the execution of the strategy, although it's not easy.

You must also understand that during a cycle, some asset classes will perform better than others. For example, the energy sector is in a rut at present because of low oil prices and weak demand. Investors stay away from energy or oil stocks because of elevated volatility. The same goes for airline stocks.

When oil prices begin to surge, along with demand, it will start a new cycle. In such a case, you follow the golden rule: buy low and sell high. Investors will follow the trend and ride on the momentum. As energy stock prices rise, investors will profit take at some high point.

TSX rally

The pandemic triggered a stock market crash in March 2020, causing a market-wide carnage. The S&P/TSX Composite Index saw its biggest one-day drop since 1940. On March 12, 2020, the TSX fell 12.34% from 14,270.10 to 12, 508.50. Canada's main stock market sunk further a week later to 11,228.50.

However, the bloodletting did not last long, as a bull rally ensued. On November 18, 2020, the TSX finished at 16,889.80, or a +50.42% climb from its COVID-low. It has recovered from the losses and is down by only 1.02% year to date. Of the 11 primary sectors, five are in positive territory and six remain in the red.

Thus far, the top three performing sectors are information technology (+38.05%), materials (+16.83%), and industrials (+13.05%). The energy sector is the worst performer with its -44.02% loss.

Bucking the pandemic

If you're wary of the present market uncertainty, **North West Company** (TSX:NWC) is proving to be irrepressible and pandemic-resistant in 2020. Investors in this consumer-defensive stock are winning by 25.31% year to date. Likewise, its 4.35% dividend yield should be safe and maintainable, given the 57.39% payout ratio.

This $1.6 billion Canada-based multinational grocery and retail company serves communities in extreme geographies. It has a monopoly of the markets. Even an e-commerce juggernaut is hardly a threat.

You can find North West stores in underserved rural communities and urban neighborhoods in northern Canada, western Canada, rural Alaska, the South Pacific islands, and the Caribbean. Customers in these markets can buy a broad range of products and avail of various services. The highest preference, however, is food.

If you were to invest today, the share price of $32.84 is a good entry. Analysts forecast the stock to climb further by 15.71% to $38 in the next 12 months.

Reversible trend

Expect the TSX to get hotter once the availability of the COVID-19 vaccine becomes a certainty. However, don't get too excited, as rising infections and a return to lockdowns could reverse the trend.

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