



Stock Market Crash: Now Is the Time to Be Cautious

Description

Like it or not, a stock market crash is always around the corner. It usually hits when we least expect it. Nobody, not even the most seasoned economist, knows when stocks will fall off the cliff next or what will cause it. Some famed fund managers, including **Fairfax Financial Holdings** top boss Prem Watsa, with a knack for spotting macroeconomic trends, may see the odd crisis or market meltdown before it happens.

Unfortunately, it's pretty much impossible to get out of the way of stock market crashes consistently. There are far too many variables involved with timing the broader markets with any degree of accuracy. The 2020 coronavirus crisis blindsided some brilliant people, like Fairfax's Watsa, who didn't have the flexibility to get out of the way. Firms like Fairfax that found themselves in the wrong places at the wrong time did not get spared.

Stock market crashes: Don't fear them; prepare for them

[To do well as an investor](#), you don't need to have a knack for steering clear of stock market crashes. All you need is a Plan B to prepare for when the next inevitable market crash happens. Even if things are looking up, as they are right now, with a handful of effective COVID-19 vaccines ready to be rolled out in a matter of weeks, you should never let your guard down. Because when times are good and greed is in the air, the risk/reward trade-off tends to be less than stellar than the reverse scenario, when fear is in the air, and the stock market can't seem to catch any bit of good news.

Make no mistake, November's vaccine news is a massive deal. It puts the pandemic's end in sight. Hope has replaced much uncertainty, but with the **TSX Index** soaring nearly 12% in a matter of weeks, it's vital not to become complacent. While another big stock market crash is unlikely, a healthy 10-15% correction should never be ruled out, especially after one of the strongest multi-week rallies since the rise out of the depths of March.

Overdue for a sell-off?

Morgan Stanley seems to think we're overdue for a [correction](#) by year-end.

A Santa Claus sell-off could have the potential to be nasty for investors who've gone all-in on stocks at these heights. But if you've got cash on the sidelines to take advantage of such buyable dips, you could be in a position to get a huge bang for your buck come the next leg up.

Renewed vaccine hopes have given this market a shot in the arm. But such positive vaccine news is starting to become less effective at propelling the broader markets higher or preventing the next stock market crash or correction. As such, investors should pick their spots carefully and not look to exhaust their liquidity reserves just because the coast looks clear. The vaccine-driven rally could exhaust itself, and once it does, you're going to want to have cash on the sidelines to take advantage of what could be the last great buying opportunity this year.

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