



Market Crash: If You're Invested in These Stocks, It's Time to Sell

Description

With the **S&P 500** coming off the [best month](#) in over 33 years, it's only prudent to think about taking at least some profit off the table. Back in January 1987, the last time the markets posted a similar kind of explosive rally, the markets tanked just months later as a part of the great market crash of 1987.

A November to remember

Now, I'm not saying that we'll be in for a vicious sell-off in 2021. Rather, I'd urge investors to temper their optimism after the recent explosive run. Greed is back, and there's a risk that the rally may have overextended itself, as it did back in the early part of 1987.

Now, I wouldn't make any drastic portfolio moves today, as the favourable U.S. election result and the recent slate of vaccine news is a huge deal. But if you're thinking about going all-in on stocks for fear of missing out on the next leg higher, it may be wise to nibble away and wait for fear to return as the main aura on Bay and Wall Street.

The October-November reversal in sentiment was a 180-shift reversal. There's no question that the shift from fear to greed was sudden. Now that the tables have turned, I'd be more inclined to be fearful, given major positive surprises have already had the chance to be baked in. Could sentiment reverse once in December? Or will Santa Claus still be coming to town?

With a tug-of-war between the bulls and bears, it could go either way. Regardless, the risk/reward trade-off doesn't seem great here, given high expectations for 2021's recovery now that the end of the pandemic is in sight, with more clarity on that vaccine timeline.

Stocks, on average, have been developing a bit of froth in recent weeks. That said, stock pickers who pick their spots carefully may be able to get a huge edge over passive investors, given the divide caused by the rotation out of defensive stocks and into the COVID-19 recovery plays that may have more upside going into the new year.

The sweet November rally went strong on the first day of December. But as greed continues to propel

the markets higher, investors shouldn't neglect the defensive portion of their portfolios, as many others have been doing after the latest rotation into the riskier recovery plays.

A market crash could always be around the corner. Although it seems unlikely given the major positives, I'd urge investors not to disregard the price they'll pay, even if the current market environment warrants a higher multiple on your average stock.

Cyclicals could take a hit

Consider cyclical stocks like auto-part maker **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) and transit bus manufacturer **NFI**, two companies that took a clobbering back in the February-March market crash. The former play, Magna, went from ice-cold to white-hot in just months, as the auto sector rebound clashed with an unprecedented euphoria for ways to get into the electric vehicle (EV) world either directly or indirectly.

Moreover, during the pandemic, many people who've relied on public transit in the past have gone the route of owning their own car to reduce the risk of contracting COVID-19. I'd imagine that many local governments have curbed their transit spend, which doesn't bode well for NFI's recovery prospects.

With Magna soaring well above its pre-pandemic levels, I'd urge investors to take at least some profit off the table. Shares are up 115% from those ominous March depths. And although the future has never looked brighter for the company, with high 2021 recovery hopes, I cringe at the valuation.

Foolish takeaway

Unless you think we're at the start of a new economic cycle due to the coronavirus crisis, I wouldn't look to pile into a name like Magna. The cyclicals have been bid up big-time, and I think they could face amplified damage come the next market crash or correction.

If you're able to time your entry into such cyclicals properly, you could punch your ticket to [outsized gains](#). On the flip side, if it turns out we're still in the latter stages of the market cycle, you could be one of the investors left holding the bag once the tides turn.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date

2025/07/06

Date Created

2020/12/02

Author

joefrenette

default watermark

default watermark