4 Tips to Profit Off the Next Market Crash

Description

Market crashes are something that many fear; however, they should be welcomed. Seasoned investors welcome market crashes, because it gives them the chance to buy stocks cheap.

While market crashes can sometimes impact your personal finances, you should do your best to avoid that. It's important to never invest money that you may need, even if it's a few months down the line.

There's no guarantee that stocks will be worth more or even the same in the next few months if an unfortunate market crash happens.

Luckily, if you plan ahead, you can make sure a market crash won't negatively impact you. However, you can also make sure you are ready the next time one hits. That way, in addition to not impacting you negatively, you can actually use it to your advantage.

Here are four tips to help you profit off the next market crash.

Be prepared for a market crash

It's impossible to predict a market crash; however, that doesn't mean that you cant be prepared for one.

One of the first things to do to make sure you are ready to take advantage of the massive bargains in a market crash is to make a list of all the high-quality companies you're interested in buying.

In addition, for each stock, you should also figure out a price that you believe is cheap enough that if the stock falls below it, you will pull the trigger.

This is crucial, because often, investors can wait too long for the stock to continue falling and end up missing some of the best deals. If you buy when the stock is attractive and hold it for the long term, it won't matter if you could have bought the stock for 5% or 10% cheaper.

Furthermore, you'll also want to know what risks each stock has, as this may be crucial to helping you avoid a disastrous investment. For example, if you were looking to buy **Air Canada** (TSX:AC) in January, you might have thought below $40 a share was a steal.

However, by knowing the risks to Air Canada's business, you could have avoided an investment only a few weeks later, as the price started to tank in the coronavirus market crash.

Don't be afraid to bow out of stocks if you're concerned about the risk

Just as you may end up deciding to avoid an Air Canada at the last minute, sometimes you may have to abandon a stock soon after buying it.

This is why you should be prepared and know all of your businesses inside and out and what the biggest risks are to their operations.

It's fine to rebalance your portfolio if something significant changes. Imagine buying Air Canada right before the pandemic; with what we found out very quickly in late February, it would have been prudent to get rid of Air Canada. So, while you should commit to stocks long term sometimes it's not the case.

Resist making short-term investments

You may have to abandon an investment early in certain situations; however, you should try and avoid short-term investments. Making short-term investments is an easy thing to want to do. After all, everyone wants to make as much money as they can as fast as they can. However, as easy as it is to do, you should try as hard as possible to resist these impulses.

Long-term investing is far less risky and gives you a different perspective on why to invest in a stock. If you know that you have a decade to grow your money, you can afford to buy stocks facing short-term headwinds when they are cheap.

Short-term investing, however, is a lot more speculative, making it much harder to earn strong returns consistently.

Always have cash on hand for a market crash

You don't want too much cash, because owning cash is a drag on performance in most years. However, it's key to have some cash ready in case a market crash materializes.

Furthermore, from time to time, one of your target stocks may fall due to a short-term headwind, without the market actually crashing. In times like these, it will pay off significantly to have cash ready so that you can pull the trigger.

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