Prepare Yourself for Another Market Crash in 2021

Description

This year came as a shock to many veteran investors, as the stock market behaved unpredictably. While the **TSX Composite Index** did crash 33% in March, it recovered quickly. History has shown that stock prices grow faster in a recovery phase than in their normal growth phase. In eight months, the TSX Composite Index surged 53%, recovering to the January level. This stock market rally is fuelled by the government's fiscal stimulus package. When the fuel runs out, the market could crash. So, brace yourself for another market crash in 2021.

The pandemic stock market rally

Billionaire investors like George Soros and Warren Buffett did not actively participate in the stock market rally, as it was not driven by economic numbers. According to Statistics Canada, real gross domestic product (GDP) dropped 11.3% in the second quarter but grew 8.9% in the third quarter. The TSX Composite Index surged 16% and 3.9% in the second and third quarters, respectively.

The stock market rally is not in sync with the GDP, as it is the money from the government stimulus package that is driving the rally. When the GDP contracts, people lose their jobs and don't have sufficient money. Hence, they pull out their money from the stock market, which leads to a market crash. This is what happened in March.

But the Justin Trudeau government launched several packages like the Canada Emergency Response Benefit (CERB). These benefits increased the household disposable income by 10.8% in the second quarter. As interest rates were near zero, people put their benefits money in virus stocks like **Shopify** and **Cargojet**, thereby inflating their valuations.

But the stock market rally eased in the third quarter, as household disposable income dropped 3.1% due to a 24.3% decline in other benefits. This was the time the Canada Revenue Agency (CRA) replaced emergency benefits with recovery benefits.

Market crash 2.0 in the making

After a tepid 3.9% growth in the third quarter, the TSX Composite Index surged 6.6% in October and November. This growth majorly came as positive news around the COVID-19 vaccine revived investors' confidence. Moreover, the CRA resolved the issues surrounding the transition from CERB to the Canada Recovery Benefit (CRB).

The CRA gave eligible Canadians $1,800/month CRB from October end onwards. By November, Canadians had the benefit money in their wallets, giving them room to invest in stocks. Hence, when the vaccine euphoria began, investors poured money into **Air Canada**, **Suncor Energy**, and **Enbridge**.

The CRB is available to eligible Canadians for 26 weeks. This means, if you have been collecting CRB from September 27 on a recurring basis, you will exhaust your 26 weeks by March 27, 2021. This could see another decline in household disposable income and force people to cash out their stock market investments in April.

The TSX Composite Index fell 6.7% in September and October, as Canadians were cash strapped due to delays in CERB and CRB payments. But they knew that they have CRB coming. Things could be different in March and April. The index could fall over 10% if the unemployment rate doesn't improve, as there won't be another benefit coming. The CRA has put the CRB in place till September 2021. It is up to individuals how they make the most of the available benefits.

How to prepare for a market crash

The best way to prepare for a market crash is to invest in resilient value stocks that have strong fundamentals but are trading at a discount. **RioCan REIT** (TSX:REI.UN) stock is trading at a 35% discount, which has increased its dividend yield to 8.3%.

RioCan pays dividends from the rental income it gets from retailers on its stores in prime locations. When the pandemic-driven lockdown shut all non-essential stores, RioCan suffered from reduced rent collection, lower occupancy rate, and risk of default.

But the recovery has been fast, and its rent collection has normalized. The occupancy rate will take some time to return to the pre-pandemic level, but it won't hurt the REIT's dividend-paying capacity. The stock will give high dividends in a market crash and capital appreciation in a market recovery.

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