



Stock Market Crash 2021: 4 Simple Ways to Prepare for it

Description

Although it's hopeful to see vaccine programs being rolled out globally, the trajectory of the pandemic is still highly unpredictable. COVID-19 variants have appeared — with the most prominent one being the fast-spreading variant found in the U.K.

There's nothing to be ashamed of if you're concerned about a potential stock market crash in 2021, especially for new investors who have little experience investing in stocks that are innately volatile, even when a market crash is absent.

Here are a few ways you can make yourself much more comfortable in preparation for a stock market crash in 2021.

Worried about a stock market crash in 2021? Hold more cash

Canadians have been holding a bigger stash of cash during the pandemic. That's a smart thing to do given the high levels of uncertainty the pandemic brings.

Financial experts recommend holding at least three to six months of living expenses as an emergency fund. On top of that, you could hold 10-30% of your investment portfolio in cash or cash equivalents.

For example, you could put a portion of your cash position in a mix of money market funds, laddered GICs, and high-interest savings accounts. How much of your portfolio you choose to stay in cash depends on how fearful you are of a stock market crash.

Just take care not to sell out of your stocks entirely, because the stock market tends to go up in the long run. If you sell all your stocks, you'll miss the inevitable upside.

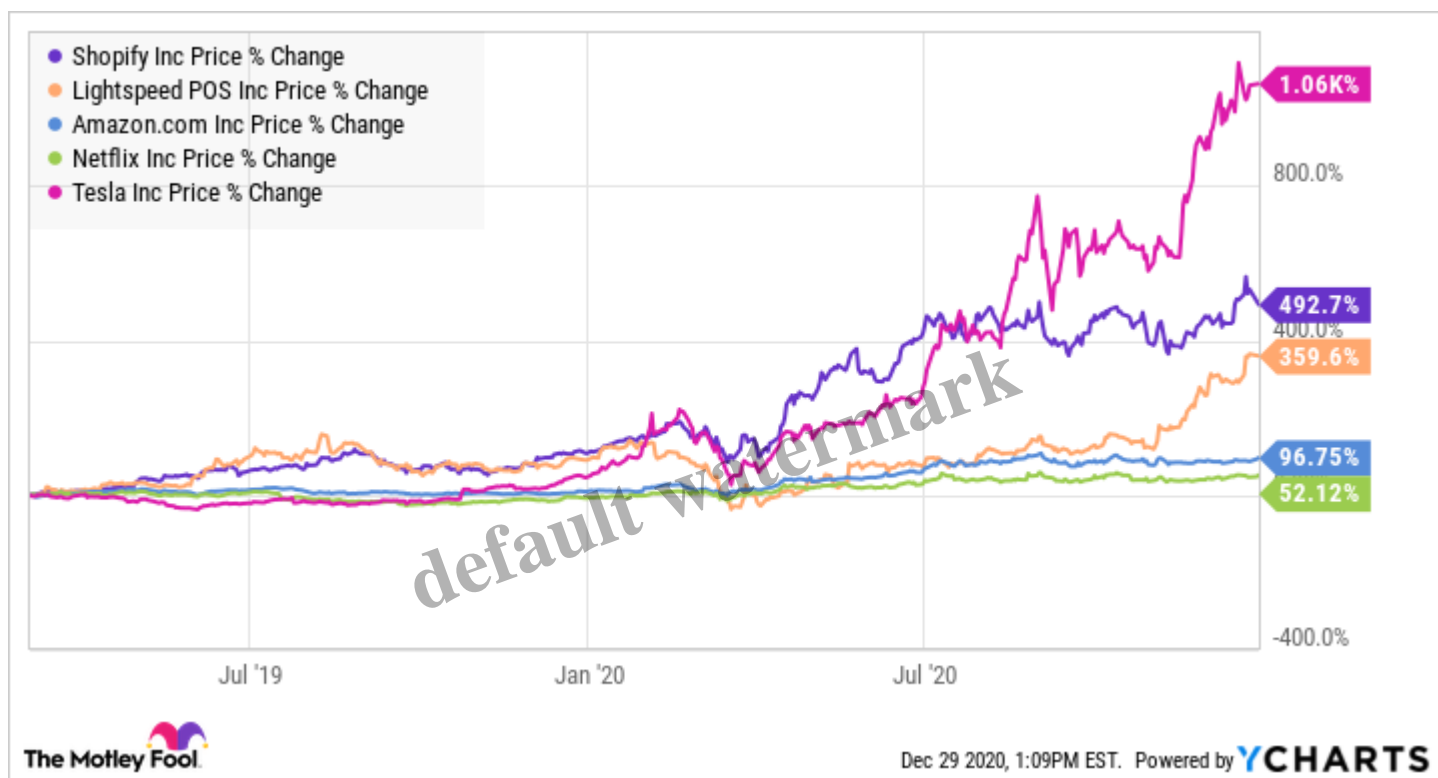
Invest in growth

Even during this pandemic year, there were high-growth stocks that defied the odds of gravity. Tech

companies are a good space to shop for these fast-growing companies.

Now, tech is a very vast space, including e-commerce, cloud computing, and artificial intelligence. Basically, any company that is using technology to transform, translating into incredible top- and bottom-line growth, can be labeled as a tech stock.

The Motley Fool identified high-growth stocks like **Shopify**, **Lightspeed**, **Amazon**, **Netflix**, and **Tesla** early. Looking back on the stock charts for these stocks, the pandemic market crash around March looks like a blip.



Data by YCharts. A three-year stock price chart on five growth stocks.

It's not that high-growth stocks don't sell off in a market crash, but they recover more quickly and rally more furiously after a crash. So, you definitely want some high-growth stocks in your portfolio.

Generate income

Your portfolio would be above-average volatile if you only hold high-growth stocks, particularly if you hold small-cap companies. Most investors would feel much more comfortable holding a good portion of their stock portfolio in income-generating stocks.

Traditional businesses are great stabilizers for a diversified portfolio. For example, you might hold a utility like **Fortis** or **Brookfield Infrastructure**, a telecom like **TELUS**, or a bank like **Royal Bank of Canada** or **Toronto-Dominion Bank**.

You're not aiming for the greatest returns in these stocks, though they will still deliver good returns if you buy on dips. These defensive holdings give you reassurance when fear grows exponentially in a

stock market crash.

Focus on buying great businesses

Lastly, you want to prepare a buy list of great businesses you want to own or add to. During a market crash, you can put the extra cash and income generated from your portfolio to work. Buying wonderful businesses during [a market crash](#) and holding for a long time is what generates massive wealth.

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