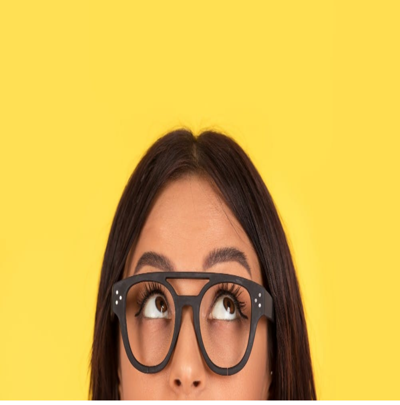

Brace Yourself, the Next Market Correction Could Be VERY Painful

Description

The odds of a January market correction are looking pretty high. Billionaire investors and analysts at various sell-side institutions have been ringing the alarm bell of late. Yet, many beginner investors still seem to think that this epic market rally will continue to go on forever.

Carl Icahn's hedging hit bets

Legendary hedge fund manager Carl Icahn recently told CNBC that the current market rally could be ended by a "major painful correction" and that he's been hedging his bets against such a downturn that could rear its ugly head as soon as this month. At the time of writing, the Georgia election results are too close to call. If an unfavourable result is reached, we could very well see the beginning of the market correction that the smart money thinks we're overdue for.

Given market moves tend to be at warp speed in this pandemic-plagued market, with severe overextensions both to the upside and the downside, count me as unsurprised if the "painful correction" that Carl Icahn is calling for ends up being a vicious market crash that could wipe out new investors who've made the mistake of investing too heavily on margin.

Fortis beats gold and Bitcoin as a volatility hedge at these prices

If you're looking to hedge your bets against a potential first-quarter stock market crash or correction, consider looking to beaten-up shares of **Fortis** (TSX:FTS)(NYSE:FTS) while they're still down and out for no real good reason. In an era of near-zero interest rates, you'd think that the demand for bountiful bond proxies like Fortis would be up. Shares of Fortis have been treading water for most of 2020, and they're back on the retreat with shares now down 2% to start 2021.

The stock has seen its yield swell back to the 4% mark, making the regulated utility a terrific place to hide ahead of a potential uptick in volatility. The market seems to be flocking into "safe haven" assets like gold and Bitcoin while neglecting the shares of wonderful defensives like Fortis that actually produce something over time.

Market correction: The appetite for speculation seems too high

There's no question that the appetite for speculation has risen of late. Not just for white-hot tech and EV (electric vehicle) stocks, but for lowly correlated alternative assets like gold and Bitcoin. While some may view gold and Bitcoin as ways to hedge against the unprecedented money-printing, they're also speculative assets that are only worth as much as the next person is willing to pay.

While hedging yourself with precious metals may be a good idea given the profound haze of uncertainty that's clouding the future, one must never lose track of the price they'll price for a given asset.

Even a "safe haven" asset like gold can be dangerous if you overpay, as many speculators likely see such assets as a means to make a quick buck by playing the game of greater fools (that's the greater fool theory, which has nothing to do with us here at the Motley Fool!).

Rather than looking to hedge against a crash with bid-up "safe haven" assets that could still implode in a cash-crunching crash, I'd much rather place a bet on Fortis, which, unlike gold or Bitcoin, has a margin of safety and bountiful cash dividends.

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