



Don't Make These Mistakes in the 2021 Stock Market Crash

Description

Last year, the pandemic brought the world economy to a standstill. This never before seen health crisis led the way to a market crash in March 2020. However, the stock market saw the fastest recovery on the back of the government fiscal stimulus package that put free money in the hands of Canadians. While tech stocks rose to unprecedented levels, energy, airline, and real estate stocks did not recover significantly as they battled the aftermath of the pandemic. There are chances of another market crash in 2021.

If you lost money in the 2020 market crash, you have another chance.

Will another stock market crash come in 2021?

It's impossible to time a market crash because a crash happens in a state of panic. Investors encash their money as the future of the business is cloudy. They fear that they will lose their money. Hence, this is the time when gold picks up as it is considered as an alternative to currency. The 2020 stock market crash saw a recovery as the stimulus package injected money into the economy.

When the stimulus package ends, the stock market is likely to see a correction. It happened in September 2020, when the Justin Trudeau government replaced emergency benefits with recovery benefits.

This year when the stimulus package ends, the government might not extend it further. That will be the turning point for the stock market. It will see a correction. Keep your eyes on bank stocks as the end of stimulus money could trigger loan defaults.

For instance, airlines, real estate, energy, retailers, and restaurants raised their liquidity this year by taking short-term loans and raising equity capital. They used this liquidity to survive the pandemic. They didn't make any profits from this liquidity. If this situation continues and the stimulus money ends, there could be another wave of job cuts.

Companies that accumulated liquidity and did not earn sufficient revenue might struggle to repay the loans. They might either restructure short-term loans to long-term loans or default. Hence, Warren Buffett sold off [most of his bank stocks](#). Another stock market crash in 2021 might also lead to the

bursting of the tech bubble.

Is there a tech bubble in 2021?

The tech companies have reached sky-high valuations in the 2020 stock market rally. When the stimulus money stops and employment is not sufficient, people will cash out the money they invested in tech stocks. But unlike the 2000 dot.com bubble, this tech bubble won't send the tech stocks crashing to 10-year lows. At most, these stocks might return to the pre-pandemic level.

Don't make these mistakes in 2021

I have been vouching for tech stocks like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) last year. But they have rallied to sky-high values. While these e-commerce stocks have significant growth potential, their high valuation makes them a risky bet.

The right way to look at a growth stock is to look at its revenue growth, and both Shopify and Lightspeed are trading above 60 times their sales per share. This valuation shows that investors have already priced in high revenue growth expectations. Their 2020 revenue is estimated to grow 80% and 63%, respectively. Now, this growth was possible because of the pandemic-induced demand. But these companies won't be able to sustain this growth rate without the pandemic and return to a 30%-55% rate.

This could probably see some correction in the stock price. Shopify and Lightspeed are good long-term buys, but when bought at the right price. Many tech giants survived the dot.com bubble, but they have still not reached their 2000 levels. Hence, don't buy tech stocks at their highs. Wait for the market to crash and buy them at a dip when their valuation reaches a reasonable level.

Where to invest in the meantime?

Whether there will be a market crash or not, it is difficult to say. But that doesn't mean you hoard cash and wait for the crash. If you have \$5,000 to invest, set aside \$2,000 for a market crash and invest the remaining in [resilient dividend stocks](#).

CATEGORY

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TICKERS GLOBAL

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:LSPD (Lightspeed Commerce)
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