Market Crash 2021: Stash Your Cash Out of the Danger Zone

Description

Despite a lot of speculation otherwise, 2020 passed without another market crash. But that doesn't mean that the financial calamity is no longer coming; it's merely delayed. The impact of stimulus payments and government intervention will wear off eventually, and when that happens, the market will most likely see a brutal correction.

There are a number of things you can do to prepare for a 2021 crash. You can liquidate part of your investment portfolio (recovery stocks mostly) to capitalize on the growth you've so far achieved. The increased liquidity will also help you cherry-pick amazing companies when they are trading at a heavily discounted price during the market crash. But that's a risky approach and might be devastating for your portfolio if a crash doesn't come.

There is a relatively safer approach you can take.

Rotate your capital

When you are adding aggressive growth to your portfolio, elevating the risk profile is a natural consequence. This is not a problem when the economy is going strong. Still, in a weak economy and especially during market crashes, high-risk stocks can be a death sentence for your portfolio (in extreme cases). If you want to anchor your portfolio down to stay afloat during a crash, consider rotating riskier stocks to relatively safer ones.

It's important to understand that not all risky growth stocks underperform during a crash. But it's better to be safe than sorry. One company that you may consider removing from your portfolio (at least until the possibility of a crash or the actual crash is behind us) is **Headwater Exploration** (TSX:HWX). It's an oil and gas exploration company based in Calgary, and it's one of the few consistently growing stocks in the energy sector.

The share price has grown over 400% in the last five years, and most of the growth happened after the 2020 crash. The balance sheet is also quite strong. One major problem with this stock is that the revenues are declining since 2019. The stock is quite overpriced in a sector that is already facing serious problems.

A safer alternative

Metro (TSX:MRU) is a 25-year old Dividend Aristocrat and a supermarket food chain. It's two main divisions are food and pharmacy. Both are things people need, no matter what the condition of the economy is. Metro is a low-yielding aristocrat, and it's currently offering dividends at a modest yield of 1.5%. But that doesn't mean safety is the only thing Metro has to offer.

This growth-oriented food chain can help you add some consistent and relatively dependable growth to your portfolio. Its 10-year compound annual growth rate (CAGR) is 16%, and if the company keeps increasing its local footprint and leverage the growing popularity of e-commerce the right way, it can keep growing at an incredible pace.

Foolish takeaway

When you are preparing your portfolio for a market crash, you might have to give-up some compounded growth. Still, if you run a simple cost-benefit analysis of what you are losing now compared to what you'd lose if a market crash brutalizes your portfolio, you might find it easier.

And if you have some cash at hand, consider buying recovery/growth stocks to make up for any of the losses you sustained during the crash.

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Date
2025/07/02
Date Created
2021/01/08
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