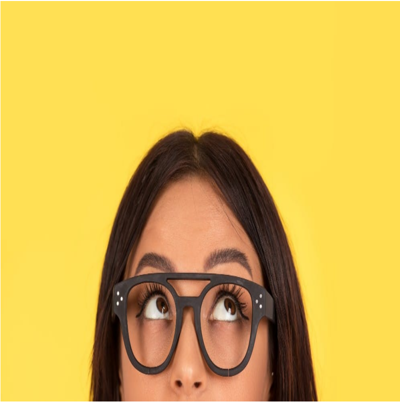

Stock Market Crash 2021: 3 Do's and Don'ts

Description

With the COVID-19 variant, the pandemic is spreading faster than ever. The simultaneous rollout of vaccine programs and lockdowns around the world should help. However, it's going to take time.

In the meantime, lockdowns are going to affect businesses and the economy immediately. They could trigger another stock market crash in 2021.

Here are some do's and don'ts to keep in mind when navigating your stock portfolio through the market crash.

Do have cash available

Back in the 2020 stock market crash, **Canadian National Railway** stock fell below $95 per share. It is up 50% now. **TD** stock fell under $50. It's up 48% now. **Sun Life Financial** dropped to $35. It has climbed 73%. **Barrick Gold** stock declined to $18. It's climbed 74%.

It's horrible to not be able to buy when stocks are cheap. So, you always want to have some cash available for deployment.

If you hold dividend stocks, such as TD and Sun Life, which provide decent yields of more than 3%, their regular dividends will serve as a perpetual cash machine.

Do focus on diversification and quality

Having a diversified portfolio does not mean buying and holding stocks of the same industry. Businesses in the same industry face similar risks. When those risks play out, the affected stocks will all fall. You only diversify in terms of company-specific risk when you buy stocks in the same industry.

A diversified portfolio implies owning stocks that don't move in tandem with each other. Other than by industry, you can also diversify by the size of the company. For example, mid-cap companies can grow at a faster rate than large caps. So, you might want to add some mid-cap stocks to your portfolio.

Precious metals stocks tend to move differently from the market. Consequently, it's a good idea to own some in your portfolio if you're looking for that kind of diversification.

Whichever stocks you choose to own, make sure they are driven by quality businesses with good balance sheets. For large-cap stocks, you should look for consistent profits and persistent earnings growth. For mid-cap stocks, you might focus on a faster growth rate.

Don't sell out of the stock market

The stock market tends to go up. So, you never should sell out of the stock market, because you'll miss the inevitable upside.

Some people have sold out of the market before, thinking that it's too high. They wish to wait for the next market crash, but not everyone has the patience to wait, because no one knows when it will happen. The next market crash could come this year, next year, or 10 years later.

Importantly, the market could head much higher before it crashes. Therefore, it's best to stay invested.

If, for whatever reason, you've become increasingly worried about a market crash, you can build a bigger cash position. You can raise cash by taking partial profits, receiving dividends, or saving from your paycheques.

If your stock portfolio is sufficiently diversified in quality businesses, trust that it will recover from any stock market crash.

The Foolish takeaway

Wealth is gained from staying invested for the long term in the stock market, but tonnes of deals are available during stock market crashes. Therefore, if there are no attractive opportunities, consider building a bigger cash position.

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