



Stock Market Crash: When Will it Hit? How Bad Could it Be?

Description

This rally really does seem unstoppable, but that doesn't mean you should let your guard down by ruling out a stock market crash in 2021. Many smart people, including the likes of sell-side analysts and billionaire money manager [Carl Icahn](#), have rung the alarm bell in recent months, warning that stocks may be due for a "painful" plunge.

There's no question that the strength of this rally is unprecedented. The economy still faces an uphill road to recovery as the horrific coronavirus continues spreading and mutating. The industries hit hardest by the COVID-19 pandemic (think entertainment companies like **Cineplex** and airlines like **Air Canada**) are still feeling immense pain. And things could get much worse before the vaccine can end the pandemic and spark a sustained economic rebound.

If a 2021 stock market crash hits, investors could get caught between a rock and a hard place

With the Biden administration looking to pass a massive US\$1.9 trillion relief package, pricy stocks, gold, and riskier assets like Bitcoin certainly do seem like the only game in town, as a stimulus-induced threat of an unchecked rise in inflation could deal a one-two hit to the chin of those with excessive amounts of cash sitting on the sidelines.

While inflationary fears may justify punching one's ticket to stocks at the higher end of the valuation spectrum, one must resist the urge to completely neglect valuation with some of the sexier plays out there today. Just because prospective returns may seem low does not mean it's a good idea to [up your risk appetite to achieve greater returns](#), especially given many beginner investors tend to overestimate their risk tolerances.

Some bubbles may be floating around in this market, as investors become more willing to pay whatever price Mr. Market commands in this pandemic-plagued environment.

The next stock market crash could be vicious

With rising levels of margin debt, the next stock market crash has the potential to be a vicious one. While it may not be as steep as the one suffered during the February-March 2020 coronavirus sell-off, high-margin debt levels could exacerbate the next “healthy” correction and turn it into another cash-crunching market crash, as margin calls come flowing in for those who made the mistake of borrowing heavily to invest in a hot market.

Stocks don’t always go up. They can reverse without a moment’s notice in a “Wile E. Coyote” fashion, as we learned last February. While this rally could have more gains to come, I’d urge investors not to discount the warnings of various pundits over the potential for a “painful” correction or stock market crash.

Price-to-earnings (P/E) multiples are continuing to swell. Although stocks may not be as expensive as they seem, given the environment we find ourselves in, I would encourage profit-taking in the biggest winners of 2020 before they have a chance to be surrendered to Mr. Market. He can pull the rug from underneath investors at any time and potentially without a negative catalyst for doing so.

How to protect yourself from the next market sell-off

In a prior piece, I’d suggested investors look to unloved areas of the market — most notably, the utility space. High-quality defensive dividend stocks like **Fortis** have taken a hit to the chin amid the rise in the appetite for riskier, higher-return investments.

While we may be in an expensive market, Fortis and some other out-of-favour utility plays are anything but. In a market where you should be willing to pay a fair price to get a wonderful business, the utility industry is worth a look, as it’s my opinion that there are many discounted stocks out there that could better withstand the next stock market crash while providing an above-average risk/reward in this highly uncertain market environment.

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Author

joefrenette

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