Don’t Time a Market Crash: 1 Defensive Dividend Stock to Buy Instead

Description

The stock market is getting pretty hot. Heck, it might even be overdue for a mild correction. That said, nobody, not even the great Warren Buffett, knows when the next pullback will hit, how steep it will be, or what the subsequent recovery trajectory will look like.

While it’s tempting to wait for a “perfect” entry point into the stock market, one must remember that it’s virtually impossible to time a market sell-off or get in at the bottom.

Buying bottoms, selling tops, and avoiding plunges is far easier said than done, and most beginner investors learn this the hard way. Not even the best traders or investors in the world can do this consistently. That’s why investors should think longer-term and consider both the downside risks of investing and the upside risks, or the risk of missing out on gains by sticking on the sidelines for too long.

Waiting weeks for a market crash can turn into months, months into quarters, and quarters into years. The next thing you know, the **TSX Index** is up double-digit percentage points, and you’re left with a negative real return on your cash in the event of an unchecked uptick in the rate of inflation. It’s important to manage your downside risks in the “risky” equity markets, but I believe many are discounting the effects of inflation.

If you see an undervalued stock, buy it!

While I do believe it’s a smart idea to have enough cash to buy stocks when volatility gets wild (Warren Buffett has tons of cash), I think it’s a mistake, especially for young investors, to hoard excessive amounts of cash (think over 70% of one’s total wealth) with the intention of putting money to work at the perfect moment.

By waiting around for the “perfect” time, you run the risk of missing out on big gains. You see, there will *always* be something to worry about when it comes to markets, whether stocks are surging to new heights or tanking into the abyss like back last February and March. The key to achieving solid results over the long term is by investing and not paying too much merit to moves made over the short term.

Most important, take alarming market crash predictions with a grain of salt.

Warren Buffett won’t tell you when the markets are about to crash because he himself has absolutely no idea. He knows that the markets can go either way over the near-term, and he’s not going to take an extreme stance in an attempt to time the markets.

Look to unloved areas of the market

If you’re like one of many big-league market strategists out there who’s concerned about a pullback over the near-term, there’s no shame in keeping some dry powder on the sidelines. But if you’ve got a growing cash problem like Warren Buffett and you see a bargain today, you should seriously consider scooping up it up, regardless of what the strategists “predict” will happen over the next week, the next month, or the next year. The biggest takeaway from 2020 is that it’s a bad idea to time a market crash and that the stock market is not the economy.

Consider **Hydro One** (TSX:H), a defensive dividend stock that I view as a relative bargain in this strong market. As a firm with highly-regulated operating cash flows, the company has one of the widest moats out there protecting its share of economic profits and one of the most predictable earnings streams.

The stock sports a robust 3.4%-yielding dividend, which blows fixed-income securities right out of the water. While the lowly-correlated stock is classified as a “risky” asset, I like to think of it as the closest thing to a “bond proxy” that you’ll find in this environment.

With a 0.2 beta, H stock is more likely to zig when the markets zag and is a great way to diversify your portfolio further.

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