If the Stock Market Crashes in 2021, People Who Do This Will Survive

Description

Many experts expect the stock market to crash in 2021. In May 2020, hedge fund titan David Tepper said that the market at that time was the most overvalued he had seen since 1999. Since then, the **S&P 500** has risen 26%.

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Tepper isn't the only Wall Street insider saying that a crash is imminent. Charlie Munger is also bearish, and scores of analysts are joining the chorus. On the other hand, there are plenty who remain bullish–like Bill Ackman. Citing low interest rates and pent up savings, he believes the recovery will begin in "Q2, Q3 or Q4."

Between bulls like Ackman and bears like Tepper, we're getting mixed signals. In this environment, you'd be wise to prepare your portfolio for anything the market can throw at it. In this article, I'll explore why that's necessary–and how to do it.

Indicators flashing red

By most usual standards, stocks are very expensive right now. The S&P 500 had a 41 P/E ratio as of this writing, and the Buffett indicator stood at 224%. Both of these are very bearish signs. The more expensive stocks get relative to the underlying fundamentals (earnings or economic output), the more likely a crash becomes. And we're currently entering a phase where stocks are very expensive.

Of course, we are in the midst of a pandemic, and some stocks' earnings are being artificially depressed. Airlines and hotel companies among the most notable examples. If COVID ended tomorrow then corporate earnings would come roaring back, and the market wouldn't be as overvalued as it is at today's prices.

This is one reason why investors like Ackman remain bullish despite overall rising bearish sentiment. If the economic recovery proceeds on schedule, then stocks could continue rising. But we can't be 100% certain that it will.

A crash-proof investment

In a market like this, you might be tempted to pull all your money out of stocks. With almost everything being overvalued, how could you justify investing?

It's true that pulling out is one option, but I'd counsel against it. Bank interest pays almost nothing these days. If you leave your money in the bank, it's going to shrink in real terms over time. You need to be invested in *something*–be it stocks, bonds, metals or real estate. The question is what that something is.

One option for those who like income is utility stocks. Utilities like **Fortis Inc** (TSX:FTS)(NYSE:FTS) tend to fall less than their peers in market crashes, because their earnings are unusually stable. Utilities provide heat, light and water–among the bare essentials of life. People would rather sell their cars than be cold in the winter, so such services tend to make money even in the midst of extreme recessions.

Fortis grew its earnings in 2008 and 2009 and did not see a significant decline in 2020. So that's two recessions when Fortis outperformed. Fortis pays a regular dividend that yields about 4% as of this writing. It has been increased every year for 46 years. In 2021, that track record shows no sign of slowing down.

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Another great option you could consider is bond funds like the **BMO Mid-Term U.S. IG Corporate Bond ETF.** Like dividend stocks, these funds pay out regular cash income whether the market is up or down. Unlike stocks, however, their interest income is guaranteed by law, which makes their payouts even safer than that of a utility like Fortis, nearly guaranteeing income even amid severe market downturns.

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