Why a Stock Market Crash May Not Happen in 2021

Description

A lot of investors and pundits seem worried that we may be overdue for a stock market crash. There are bubbles floating around the market and a speculative short-squeezing frenzy driven by the retail army of so-called degenerates at the incredibly popular subreddit WallStreetBets, driving up names like **BlackBerry**.

Valuations are also on the higher end of the historical range, making it tough for traditional value investors to spot bargains. With prospective returns likely on the lower end for the next decade versus the last, investors seem more than willing to increase their risk tolerance to keep their returns elevated. While it is a good idea, especially for today's young investors, to take on more risks with more volatile high-growth stocks, one must be careful not to overestimate one's ability to stomach said risks.

A stock market crash can happen at any moment, but nobody will time it with precision

You see, the stock market crash could hit at any moment. Nobody knows when it will happen or what the cause will be. Whether the plunge will be technical in nature or sparked by the discovery of a more virulent strain of COVID-19.

The question that investors should be asking themselves is not when the next market crash will hit, how hard it will be, which sectors will suffer most, or what the recovery trajectory will look like. They should ask themselves if they're ready for such an event to happen and what the game plan will be if it happens next week, next month, or next year.

While I wouldn't encourage investors to drastically alter their portfolio's allocation in anticipation of a stock market crash or correction, I would urge investors to ensure they've done their fair share of profit-taking in the stocks that have surged above a level of your estimate of its intrinsic value.

A correction tends to hit when we least expect it. With many folks, including the likes of billionaire investor Carl Icahn, ringing the alarm bell in recent weeks, there's undoubtedly a feeling of discomfort and caution in a market that's also had its fair share of euphoric moments that mirror that of the late 1990s.

Could we be at the start of the so-called roaring 20s?

The U.S. Federal Reserve has our backs as investors, with an arsenal of tools it can still implement should this pandemic take a turn for the worst. Many investors have undoubtedly been piling into the markets, because of the accommodative Fed. While additional monetary and fiscal policy may keep the stock market from tanking as violently as it did last February and March, investors should not expect Jerome Powell and company to step in if there's a "healthy" market correction that wipes out the froth.

The longer this market rally goes, the more unforgiving the next correction will be to those who neglect valuation. There are prominent areas of extreme overvaluation out there, but don't expect a **Shopify** or Bitcoin pullback to drag the entire stock market down.

If you don't neglect the valuation process, resist the chase of the hottest momentum stocks, and keep enough cash on the sidelines to take advantage of future plunges, I think you'll be all right when the next market crash strikes. By maintaining discipline and conducting careful due diligence with your analysis, you'll be able to mute the pain that will come with the next market sell-off while being able to take advantage of this 2021 rally, however much longer it lasts.

Heck, it may have stronger legs than most expect. We really don't know.

Foolish takeaway

In the meantime, don't react drastically in anticipation of a stock market crash.

While we may be overdue for the next inevitable correction or crash, one must also consider the upside risks (or opportunity costs) of "selling everything" or raising too much cash ahead of a potential unchecked rise in inflation. Stay invested, and when the next market crash comes, buy more. Such a mindset will stop you from timing the markets and help make the next sell-off far less painful.

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