How to Prepare Yourself for a Future Stock Market Correction

Description

While a stock market crash is not the end of the world for investors, it interferes with earning potential. A severe market correction happens for a variety of reasons, whether for bad economic news, rampant speculation, rising interest rates, inflation, and a global pandemic. Indexes drop sharply for a day or more.

Investors panic and dump their stocks, thereby driving prices lower. Meanwhile, value investors with long-term views see declining markets as buying opportunities. Shares of good companies will trade below intrinsic or book values. They buy low and sell high at a future date to make substantial profits, even millions.

A creative maneuver

The stock market's behaviour is unpredictable. It booms and contracts, depending on the economic environment. When equities trend downwards, investors take advantage and purchase stocks at deep discounts. Historically, the market consolidates and rebounds in the aftermath.

The buy-low and sell-high strategy is a creative and assertive maneuver. However, for investors looking for long-term financial success, one approach is worth adopting. Identify tried-and-true dividend-paying companies that continue to pay dividends to shareholders despite economic meltdowns or harsh recessions.

Long-term investing

Peter Lynch, a well-known investor and author of the best-selling book, *One Up On Wall Stree*t, retired at 46 after a successful stock investing career. He started at age 25. Lynch believes in long-term investing. To be successful, individual investors must invest in what they know and know the investment prospect. Look at its business model and fundamentals.

Value investors like Warren Buffett also thrive during market crashes. The legendary investor will not allow experts' predictions to influence his decision. He experienced multiple crashes such as the 1987 Black Monday, 2000 dot-com bubble, and 2008 financial crisis and is now navigating the 2020 pandemic.

Buffett once said, "The risks of being out of the game are huge compared to the risks of being in it." Instead, invest in high-quality companies so you don't dance in and out of the market. Companies with influential brands, strategic assets, pricing power and other competitive advantages can weather both good and bad economic times.

First to pay dividends

Bank of Montreal (TSX:BMO)(NYSE:BMO) is the first-ever company to pay dividends. This dividend pioneer has a track record of nearly 192 years. Recessions and cyclical markets did not prevent the bank from scrapping its dividend policy and maintain the most extended record.

During the COVID-induced crash in 2020, BMO sunk to a low of $53.37 on March 23, 2020. Perhaps some shareholders sold their holdings out of panic. A week later, the price rallied 26.3% to $67.43. The bank stock ended the year at $95.73 and delivered a total return of 1.3%. Over the last 20 years, BMO returned 427.64%.

Given this $64.44 billion bank's almost two centuries practice, it's an excellent choice of long-term investors and retirees. You can purchase BMO at less than $100 per share today to partake of the 4.24% dividend. Your capital will compound by accumulating more shares and reinvesting dividends.

Return on investment

A market crash triggers a vicious cycle that pushes stock prices even lower. However, investors will hold onto their dividend stocks or typically sell them last. If your core holding is an established dividend payer, it will continue to give you a return on investment.

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