



Do This and Never Worry About a Market Crash Again!

Description

With the Canadian and U.S. stock markets trading near their all-time highs, [a stock market crash](#) is a distant idea for most investors.

The fact of the matter is that no one knows when a stock market crash will occur. We just know that it will come. It always has.

That's why we should prepare our stock portfolios and ourselves for a stock market crash. You can do so by positioning your stock portfolio for long-term investment.

Ensure you are comfortable holding your stocks

Set your portfolio up so that you can stay the course on your stock investing journey through good and bad times. A big part of that is holding a sufficiently diversified portfolio of stocks in defensive and growing areas.

For example, many investors choose **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) stock as one of their core defensive holdings. The regulated utility is ranked high as one of the best Canadian Dividend Aristocrats with a long dividend-growth streak of 47 years.

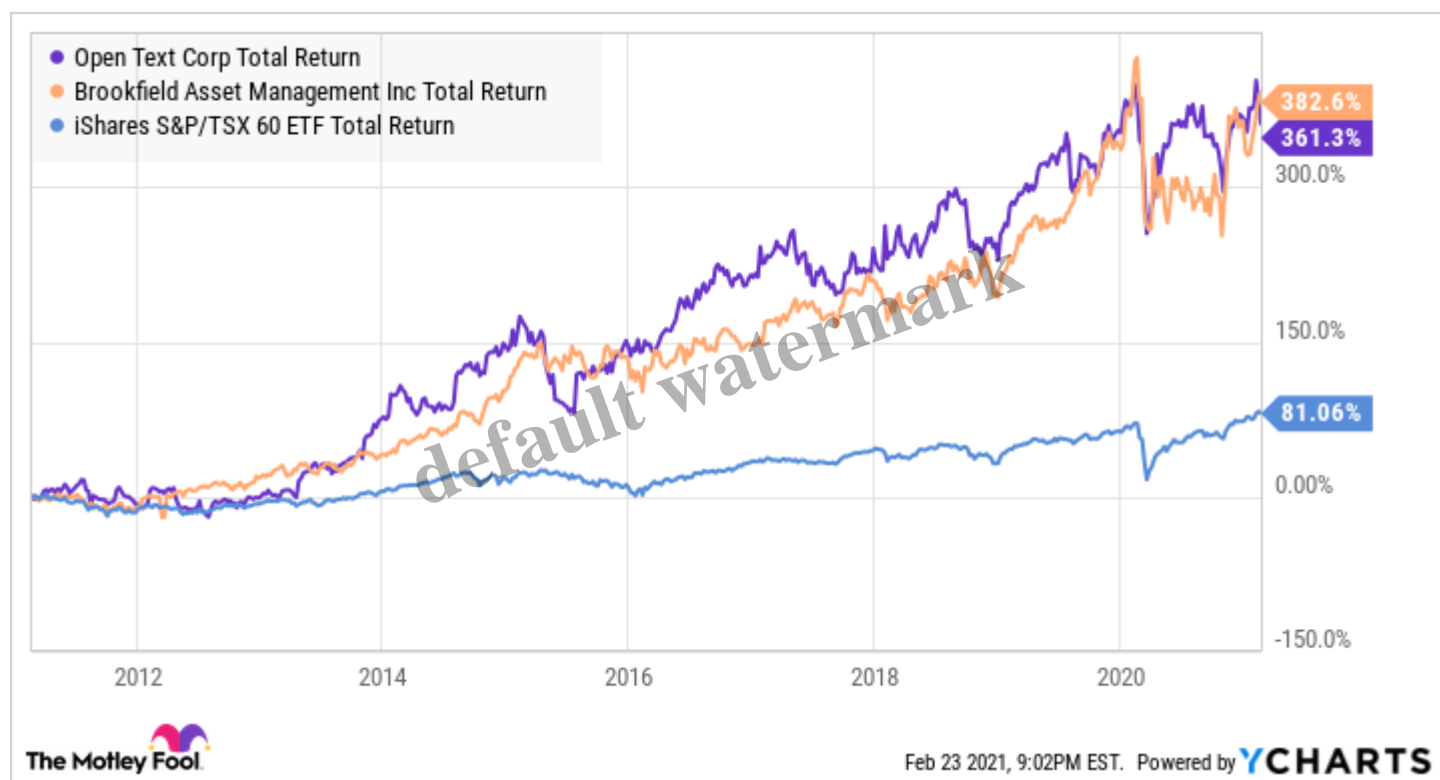
It can't possibly maintain that kind of dividend record without very stable earnings and a healthy payout ratio. Indeed, Fortis's diversified utility operations result in earnings that grow almost every year. Importantly, its net income remains resilient through economic cycles, since people need to use electricity and gas in good and bad economic times.

Don't forget to populate your portfolio with stocks that are growing at an above-average pace. **Shopify**, **Open Text**, and **Brookfield Asset Management** are all good considerations. Their five-year growth rates were at least 10%. Their higher growth would serve as a good balance for the defensive and stable stocks.

Add to winners

It's a great idea to add to your winners over time — especially during market crashes. It's easy to identify winners. They have long-term upward trends that are primarily driven by the underlying businesses.

Below is the 10-year total return of Open Text and Brookfield Asset Management stocks versus the Canadian stock market. Shopify stock has outperformed the three since it was listed on the **TSX** in 2015. (If it were included, it would skew the chart.) In any case, all three stocks have greatly outperformed the Canadian stock market.



Total Return Level data by YCharts.

During the pandemic market crash in 2020, all three stocks experienced meaningful dips that investors could have acted on by buying shares. The window of opportunity to buy on the market crash didn't last long.

[Winners](#) will do wonders to your portfolio (if you're able to hold on to them). For example, a \$10,000 investment in Shopify stock one year ago would have turned into \$25,000 (and \$102,000 if bought three years ago)!

Always have cash

Always hold some cash as a percentage of your portfolio or ensure you have cash coming into the portfolio via dividend or active income. Depending on how comfortable you are about the current state

of the market, you might hold 5-30% of their stock portfolio in cash. You might opt to hold cash at the lower end of that range if you have cash coming into the portfolio periodically.

Having cash helps a lot. Psychologically, you feel better by being able to add to your top stock ideas during a market crash. For the long term, buying the best stock ideas will lead to long-term wealth creation.

Fortis stock provides a secure dividend yield of 4% currently. Investors will receive a dividend every three months. For every \$5,000 invested, you'll receive about \$50 every quarter. Additionally, Fortis is determined to increase that payout by about 6% per year through 2025. Fortis is a nice choice if you're looking for safety and income.

Aside from your stock portfolio's cash position, you should also have an emergency fund that is at least three to six months of your living expenses. This way, you won't have to dig into your portfolio in emergencies.

The Foolish takeaway

To prepare for a market crash, simply build a stock portfolio that you're happy to hold for a long time. Seek to diversify across defensive and [growing businesses](#), add to your winners, and always have cash available for deployment.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

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