Yes, the Market Will Correct One Day, But Here's How You Can Prepare

Description

A market crash refers to a condition where a stock market index falls sharply by 10% or more in a single day or a few days. No one can predict when a severe correction or dramatic drop in stock prices will occur. However, seasoned investors know it's a fact of life in the stock market.

The causes of stock market crashes vary, and the most recent one was due to a global pandemic. COVID-19 was a blow to economies worldwide that resulted in a never-before-seen social-distancing recession. The Toronto Stock Exchange (TSX) fell 12.34% on March 12, 2020 — its worst single-day decline in 80 years.

While most market players are aware a crash can happen overnight, it doesn't temper the fear. Stock prices further collapse because selling begets more selling when the market is declining. You don't want to lose money or see your investments' value drop. If you acknowledge that the inevitable will happen one day, there are ways you can prepare. It can soften the crash's impact and protect your capital, too.

Don't attempt to time market

Timing the market is the worst strategy, as no one has ever pulled it off. The tactic is close to impossible, as stock prices peak or dip every time. Often, you incur losses when you push the panic button. You sell lower than your purchase price to cut or lock in losses. Historically, even when the situation turns for the worse, the market eventually recovers in real life.

Keep some cash to invest

Keeping some cash to invest may be counterintuitive, but a market crash opens buying opportunities. You can accumulate positions in good companies with favourable entry points or trading at deep discounts. But before you go bargain hunting, make sure your risk tolerance aligns with your goals.

Examine the quality of your stocks

Since you're clueless about the nature of the next market crash or correction, examine the quality of your stocks. If the company seems incapable of enduring the downturn, rebalance your portfolio or move to safer assets for capital protection. High-quality companies can withstand bad times and recover swiftly from them.

Wide moat

Canadian National Railway (TSX:CNR)(NYSE:CNI) is an incredibly well-managed company that operates a great business right now. The $97.91 billion company is so valuable because its rail network is a critical freight infrastructure. CNR transports more than $250 billion worth of goods for a wide range of sectors annually.

Besides its low-risk business model and defensive qualities, CNR is one of the TSX companies with a wide moat. Therefore, you're investing in a buy-and-hold dividend stock. CNR pays a modest 1.78%, but the payouts should be safe and lasting given the visible growths in volume, margins, and free cash flow.

The railroad stock is down 1.49% year to date, although it shouldn't alarm would-be investors. CNR shares tanked to as low as $94.65 on March 16, 2020, at the height of the COVID-induced market crash. Today, it trades at $137.85 or 45.64% higher. Lastly, CNR belongs to the revered Dividend Aristocrat list. It has consistently increased dividends for 23 consecutive years.

Stay the course

Keep calm and avoid a panic attack in case the TSX encounters turbulence. Long-term investors will likely stay the course and remain invested if fully prepared for any eventuality.

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