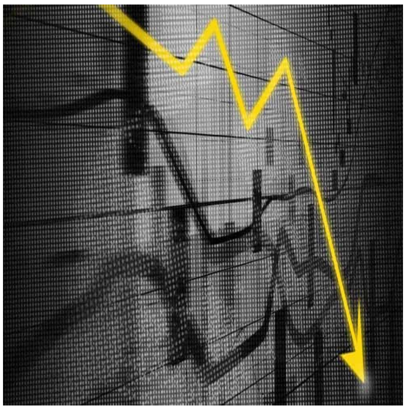

3 Ways to Protect Yourself from Market Volatility

### Description

The bull market may be starting to crack. Tech stocks in particular have been losing value since mid-February. This minor correction could turn into a full-blown market plunge like we're seeing south of the border. U.S. tech stocks have dipped double-digit percentages over the past few weeks.

It's too early to say whether this will spread to Canadian stocks. But investors should always be prepared for any eventuality. With that in mind, here are three ways you can tackle a potential market correction in 2021.



## Buy quality

Nearly every stock gets beaten down during a market crash. Investors panic and toss the baby out with the bathwater. That means even robust companies with great prospects see a dip in their valuations, creating an opportunity for savvy investors to add some exposure. High-quality stocks with lucrative dividends or high growth rates are rarely on discount — which is why a market crash could be the best opportunity to buy the dip.

My top pick for high-quality dip opportunities is **Constellation Software**. Although it's a tech firm, the business is more diversified, profitable and older than the rest of the tech sector. Constellation stock dipped during the market crash in early-2020. If you bought the stock in March, you'd be up 38% by now.

More than half of Constellation's clients are government agencies across the world. That's what makes this such a safe buy during times of panic.

## Flight to safety

Of course, your risk tolerance or market outlook could be lower than the rest of the market. A market crash could turn into a prolonged bear market. Tech stocks, in particular, have a long way to drop until they reach what experts would consider fair value.

If you're pessimistic about the market, a flight to safety would be best. Investing in defensive stocks such as **Fortis Inc.,** or a healthcare or gold mining stock could buffer your portfolio. Rock-steady stocks like Fortis lost little value during the previous crash. Meanwhile, it delivered a handsome dividend that cushioned the losses.

In fact, Fortis has delivered dividend raises every year for the past 46 years. That includes last year, while other stocks were selling off and dividends were being slashed across the market. Fortis is rock-solid.

Every investor should consider holding some robust, defensive stocks in her portfolio.

## Wait-and-watch

If you'd rather not sell or buy anything during a market crash, you're in good company. Warren Buffett himself claims to do nothing with his positions most of the time. Buffett is a patient investor who doesn't churn his portfolio often. His largest holdings remain largely the same through years, if not decades.



Similarly, you could choose to wait out a market crash. If you're confident about the stocks you hold but don't have cash to invest, waiting for the storm to pass could be the best option.

## Bottom line

It's nearly impossible to predict a stock market crash. However, valuations look elevated and some stocks are starting to correct. It could be time to prepare for a market dip.

If you have cash on the sidelines, you could buy the dip. I suggest a closer look at Constellation Software. If you're worried about a deeper correction, you could pivot to defensive stocks. Consider Fortis Inc. Or, you could do nothing and wait for the correction to pass.

The *Foolish* way to invest is to avoid panic during volatility and keep a long-term perspective. Good luck!

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