Start of a Stock Market Crash? Probably Not. Here's What Beginner Investors Should Do

Description

It was just a year ago when the 2020 stock market crash gripped beginner investors with fear. The coronavirus crisis was unforgiving to those who paid too much merit to the bearish talking heads on TV that only added fuel to the panic.

As the market crumbled like a paper bag, there was really no telling what would happen next.

Regardless, I encouraged investors to keep buying stocks on the way down, as Mr. Market aggressively marked down prices on the daily. In the heat of the moment, nobody knew that the U.S. Federal Reserve would come to the rescue as soon as it did. But for longer-term investors looking to hold for the next 10, 20, or 30 years, one had to resist the urge to predict what would happen over the near to medium term and treat the sell-off like any other.

Don't think that we're in for a repeat of the 2020 stock market crash

This tech-driven sell-off is a long time coming. But I don't think it's the start of a vicious stock market crash that should have you running for the hills or rotating aggressively into bond proxies. In numerous prior pieces, I've warned beginner investors that chasing momentum and neglecting valuation was likely to be a losing strategy in 2021, and that the speculative frenzy would end in tears for many who were only in the markets to make a quick buck over the near term.

A growth-to-value rotation was a long time coming, and many have been calling for one over the last few months. Fellow Fool Chris MacDonald pleaded with beginner investors to not follow the herd into soaring growth stocks like **Shopify**, warning that the risk of a vicious and unforgiving rotation out of growth was high.

Beginner investors: Diversification is vital

Today, the NASDAQ 100 is in a correction (that's a 10% drop from peak levels). If you were like many improperly diversified beginner investors who were drawn into markets by hot plays like Cathie Wood's **ARK Innovation ETF**, you took on more than double damage, with shares now down over 25% from their heights.

That's why proper sector diversification is key for beginner investors who seek to stay in the game. Chasing returns and momentum may make for something to brag about over the near term. But as someone wise once said, the higher something climbs, the further it has to fall.

With bond yields continuing to roar higher on Fed chair Jerome Powell's latest comments, I'd look to play both sides of the coin by nibbling into your favourite sold-off growth stocks while scooping up value stocks that can hold their own if it turns out this rotation is still in its early innings.

Beginner investors: Don't fret about a stock market crash

There's no sense trying to predict the bond market or the stock market. You have to be like Warren Buffett by being ready for *anything*. Today, that means being prepared for a continuation of the current trend (soaring U.S. bond yields and tanking growth stocks) or a reversal (dipping U.S. bond yields and a growth rebound like the one we had Monday).

Right now, one of my favourite growth plays to buy on the dip would have to be **Kinaxis** (down 40%), with **Fortis** (down 3% over the past month) being my favourite value play. By playing both sides of the coin, beginner investors don't have to fret and attempt to predict something (the future trajectory of bond yields) unpredictable.

So, don't panic over a stock market crash or correction. Stay the course and stay Foolish.

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