



## 3 Tips to Prepare for a Market Correction in 2021

### Description

Market corrections (in which stocks fall more than 10% from a recent high) are more common than you think and one could very well [occur in the latter half of 2021](#). However, there's nothing for investors to fear about market downturns. Instead, investors should embrace these market corrections, especially if they turn into [bear markets](#) (in which stocks fall 20% or more).

Buying quality stocks on dips during market corrections or bear markets is a driver for outstanding long-term returns.

Here are three tips that can help you prepare for a market correction.

### Have cash and a stock buy list ready

Always have cash available. It would be excellent if you're working and can use a portion of your income to invest every month or every few months.

You need cash that's ready to be deployed in stocks during market corrections. So, periodically update your list of potential stocks to buy. They should be wonderful businesses that you would be comfortable buying, even when their stocks fall 30-50%.

Notably, during bear markets, the strongest stocks, like **Shopify** and **Amazon** could experience smaller corrections (and rebound and rally sooner) than the market. Alternatively, they could trade in a sideways channel. Consider allocating a portion of your available cash in this type of high-resilient stock, despite other stocks falling more and that appear to be bigger bargains.

On your buy list, you'll also want to have proven dividend stocks.

### Buy and hold dividend stocks

Buying and holding a diversified basket of dividend stocks can help you generate extra cash for

investment during market corrections. In uncertain economic times, the passive income provided by dividend stocks can provide an extra layer of financial safety for investors.

I'm not talking about holding just any kind of dividend stock. For example, gold, energy, or mining stocks, which pay dividends but are known to have volatile earnings or cash flow, are not good candidates for dividend income.

**Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))([NYSE:BIP](#)) is one of my largest dividend stock holdings, because I trust it will increase its cash distribution for years to come. Its management has a strong track record of execution that has made BIP into a top-performing utility.

Through thick and thin, including dividend investment, the dividend stock has delivered annualized returns of about 24% since its inception on the **TSX** in 2009. During this time, it has increased its dividend at a slower pace than its funds from operations, making its dividend growth sustainable over the long run.

Over the years, the global utility has expanded its high-quality portfolio of essential infrastructure assets, including data centres, multi-purpose telecom towers, utilities, midstream, railroads, and toll roads.

BIP is fairly valued right now and provides an initial yield of 3.6%. It's set to increase its cash distribution by 5-9% in Q1.

For more dividend stock ideas, consider researching **Bank of Nova Scotia, H&R REIT, Emera, TELUS**, and their peers. Diversify your dividend portfolio. For example, you might limit up to 25% allocation in one sector.

## Prepare mentally

During bear markets, stocks across the board fall substantially. Don't panic sell. Remember that market corrections are buying opportunities in great businesses.

Prepare mentally by periodically visualizing your stock portfolio falling 30-50%. On corrections of 10% or more, consider at least nibbling shares of some of the great businesses on your buy list. Your long-term returns should be extraordinary by adding on corrections!

## The Foolish investor takeaway

No one has a crystal ball to tell when a market correction or bear market will come. We just know that it will eventually! So, prepare for it by having excess cash, keeping your buy list updated, buying and holding quality dividend stocks, and being mentally prepared!

### CATEGORY

1. Dividend Stocks
2. Investing

### POST TAG

1. Editor's Choice

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