Stock Market Pullback: How to Manage Your Stocks and Make Money

Description

Certain parts of the stock market are crashing — most notably growth stocks. The contrast is stark. While the stock market has dipped about 3.5% from its high, growth stocks like **Shopify**, **Lightspeed**, and **Docebo** have declined by approximately 20%, 30%, and 26%, respectively.

It would be quite a scary experience to see one's wealth shrink by 20-30%. And the stock market pullback in growth stocks may not be over yet.

There are different ways to plan for a market pullback. Owning a diversified stock portfolio surely helps.

Own a diversified stock portfolio

While growth stocks can rally much higher when the market is rising, they can also fall harder when the market experiences weakness. If you invested in a Canadian stock market exchange-traded fund, your portfolio would be down much less than if you had a growth-stock-only portfolio. It's a similar rationale to add stocks in stable industries to complement growth stock holdings.

For example, other than potentially owning the likes of Shopify, Lightspeed, and Docebo, you might also have **Fortis** stock as one of the "stabilizers" in your portfolio. The dividend stock is about 5.5% below its 52-week and all-time high. It also pays a safely growing dividend that helps calm the mind in times of increased volatility.

The big Canadian banks are also common core holdings in diversified stock portfolios. For instance, **Bank of Montreal** stock has hardly experienced a dip. It has fallen only about 4% from its high. Essentially, after a strong rally from the pandemic market crash last year, the bank stock has traversed sideways since mid-year. BMO stock also pays a safe dividend.

There are 11 sectors that you can potentially own stocks in. Within each sector, there are different industries that could be great investments. So, to your delight, do as much research as you need to discover wonderful investment ideas.

Buy partial positions at a time

Filling a full position over time during a stock market pullback is the best thing you can do in building long-term wealth, but you need to first identify the wonderful businesses that you believe will do well in the long run. Then, aim to buy partial positions strategically. Valuation analysis and technical analysis can work hand in hand in helping you decide price ranges to buy at.

Investors who want to keep it simple can start buying the top growth stocks in this market correction. If investors wanted to buy Shopify stock in this stock market pullback, they could consider buying a partial position at the current $1,600 per share range and add another tranche at the $1,300 range.

The idea is to buy when valuations are attractive. But sometimes, the market can provide even more compelling opportunities. Since we don't have all the dry powder in the world, it would be smart to space out the buys to aim for a lower average cost basis and greater long-term total returns as a result.

The Foolish investor takeaway

Maintaining a diversified stock portfolio helps deal with volatility, specifically when there's only a crash in parts of the stock market. Stock market pullbacks are the best times to add to the positions of wonderful businesses. It's a good idea to buy partial positions during a market downturn because we don't know how long it'll last. Additionally, it's best to have a long-term investment horizon to give your holdings time to recover.

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