Got Cash? Here’s Why a Stock Market Selloff Is Not Such a Bad Thing

Description

Often, when stocks sell off, investors’ natural reaction is to be concerned. And while this makes sense, and it’s prudent to figure out why the market is selling off, it’s no time to panic. In fact, a stock market selloff is one of the best opportunities to buy stocks while they are cheap, but only if you have cash.

That’s why it’s crucial to make sure that, in addition to diversifying your portfolio, you always have some cash on hand. Diversifying your portfolio doesn’t just allude to buying stocks in different industries. You’ll also want different asset classes, including highly liquid assets, such as cash.

So, in the current market environment, if you have a hefty cash position, you should actually be welcoming market volatility and stocks across the board getting cheaper.

But if we all own stocks, too, shouldn’t we be worried about their performance when a stock market selloff is materializing?

If you’re a long-term investor, market corrections are a welcome sign

Of course, if we already own stocks, our portfolio will almost certainly lose value during a stock market correction. What’s important to understand about investing, though, is that stock market corrections are natural and unavoidable.

This is why it’s crucial to invest for the long haul. Over several decades a stock market selloff could materialize numerous times. But over the long haul, the economy and the best Canadian stocks to buy should continue to grow and gain in value. This means that these market selloffs and temporary pullbacks in asset prices are the best opportunities that investors have to buy stocks.

Therefore, if you're an investor with an adequate cash position, whenever a stock market selloff materializes, it gives you the opportunity to find the highest-quality businesses trading at unbelievable discounts.

So, considering that a market correction creates so much opportunity and the fact they are nearly impossible to predict and completely unavoidable, investors should welcome these opportunities. However, in order to be ready to seize the opportunity, it's crucial you're always investing for the long term, and you have a sizeable cash position ready.

How cheap can you buy companies in a stock market selloff?

When you put into perspective just how cheap some companies get due only to short-term market conditions and fear from investors, it's unbelievable some of the discounts you can capitalize on in a stock market selloff.

For example, a massive telecommunications company like **BCE** (TSX:BCE)(NYSE:BCE), with defensive operations that span Canada, lost a quarter of its value when the pandemic hit a couple of years ago.

Since then, if you had bought at the bottom, you'd have earned a more than 75% return on your investment in just over two years. That's incredible for a large-cap company that, even at its lowest price, was still worth roughly $50 billion.

Another high-quality Canadian stock that offered an unthinkable discount during the last stock market correction was **Brookfield Asset Management**, which lost almost 50% of its value in the first month of the pandemic. And since the bottom, it's gained over 115% for investors.

Bottom line

Both of these stocks are two of the best Canadian companies you can own long term. Even more noteworthy, though, they are two large-cap stocks worth billions of dollars.

Therefore, considering even some of the safest and highest-quality stocks sell off rapidly during a stock market selloff, it's clear that as long as you have cash, these are opportunities that should be welcomed and taken full advantage of.

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