Which Stocks Should You Buy, Hold, or Sell in a Market Crash?

Description

The long-expected market crash could be near. The TSX Composite Index has dropped 6% in five trading days, whereas the Nasdaq and S&P 500 have fallen 9% and 10%, respectively. It seems crypto is not immune to a market crash, with crypto-related stocks like **Voyager Digital** and **Hut 8 Mining** among the top losers. Even **Air Canada** (TSX:AC) stock broke its $20 resistance and fell to $19. A crash could be devastating for consumer discretionary companies with significant debt on their balance sheets.

Stocks to sell in a market crash

If you are still holding consumer discretionary stocks like Air Canada and **Cineplex** (TSX:CGX), sell them the way Warren Buffett sold his airline stocks in April 2020. The pandemic has already tested the limits of these companies and laden them with debt. Hence, their recovery was slow. Consumer demand, the only thing on which their recovery depended, is fading, as stagflation knocks on the door of the global economy.

The increasing interest rate could make Air Canada's ($23 billion) and Cineplex's ($787 million) debt unmanageable. And the pace at which the interest rate is rising, they have little room to restructure their debt. Inflation has peaked at levels where consumer demand is shifting from discretionary items to essentials. The resulting economic stagnation could lead to more than a year of weak demand before there is a recovery.

With demand slowing and interest rates zooming, there is little hope of recovery. The two stocks could make a new low. And if they survive the current crisis, they won't recover to their current levels as fast as other fundamentally strong stocks.

Although the slowing economy has not changed the world for Air Canada and Cineplex, back-to-back fire-fighting has reduced their fundamental strength. This is the right time to sell these stocks, as procrastination has a cost. Instead, buy value stocks, as the market downturn has brought spring season for value investors.

Stocks to buy in a market crash

Rising energy prices and supply shocks from the Russia-Ukraine war have increased U.S. inflation beyond the acceptance rate. Rising prices of essentials are breaking the backbone of the average consumer. A slowdown in U.S. consumption affects the economies of import partners, including Canada. Hence, Canada's stock market fell after the U.S. inflation figure came out.

In such times, resilient stocks like **Constellation Software** (TSX:CSU) are available at great discounts. The software acquisition company has diversified itself at various levels from mission-critical software offerings to customer verticals to geographic locations. A global-level crisis like stagflation and recession will impact almost all verticals and markets. But the mission-critical nature of the software could help Constellation reduce its downside. Moreover, lower debt and high cash flows keep it fundamentally strong.

Northland Power (TSX:NPI) is another value buy in this heavily discounted market. The recession won't impact Northland Power's fundamentals, as it has the backing of government spending and policies. The United States and Europe have accelerated their spending on wind farms, and Northland Power is a key beneficiary. As more wind farms come online, Northland's cash flow will rise, and so will its dividend. A recovery in the economy could also bring capital appreciation for the stock.

Canada's retail REIT **SmartCentres REIT** (TSX:SRU.UN) is another buy the dip. It has properties in the Greater Toronto Area. The recession might make Toronto streets gloomy for some time. But the recovery could light up the boards again. SmartCentres has a strong balance sheet and tenant base to withstand a crisis. The only risk I am worried about is if its largest tenant, **Walmart**, vacates.

The market downturn has wiped away one-year gains of the above stocks — a similar trend witnessed during the pandemic dip. You won't regret buying them.

Stocks to hold

The recent dip has also pulled energy stocks down 3-10%. Stocks like **Suncor Energy** and **Enbridge** corrected after surging more than growth stocks this year. This correction is temporary and nothing to worry about. If you bought these stocks last year, keep holding them, as some good dividend growth is coming. Stay invested till oil prices remain inflated at around US$100.

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1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CGX (Cineplex Inc.)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:NPI (Northland Power Inc.)
5. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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