3 Mistakes to Avoid When Investing in a Recession

Description

The current market downturn has wiped off a lot of the capital gains made by several high-quality stocks in the last 12 months. The **S&P/TSX Composite Index** is down by 13.63% from its 52-week high. The Canadian benchmark index's decline in recent weeks has many investors worrying about whether we are in the middle of a stock market crash.

Regardless of whether the downturn sustains, it is no secret that we are in a recession. You already need to be careful when investing in the stock market. Market downturns like these warrant practicing even greater levels of caution.

Many investors take their funds out of stock markets to flee risk during recessions. However, investing carefully during a recession might be a clever play to realize stellar long-term wealth growth. Going this route requires ensuring you do not make critical mistakes that could entail significant capital risk.

Let's look at three mistakes to avoid when investing during a recession.

Dumping your holdings as soon as they start selling off

The entire stock market becomes highly volatile during recessions. Looking at all your investments tank on the trading screen might prompt you to take your money out of the market and cut your losses. However, unloading your investments when they falter is a rash decision.

You could ultimately hurt your long-term wealth growth by selling shares of high-quality companies at a loss instead of waiting for a recovery.

Focusing only on low stock prices

Value-seeking investors use recessions as opportunities to find and invest in bargains. However, adding stocks to your portfolio only based on how discounted the shares are could be a mistake. Many overpriced stocks come down to reasonable valuations during recessions. Some of them might not recover to their previous overbought highs.

It pays to be careful what you are investing in during a recession. Consider investing in shares of high-quality companies with fundamentals suggesting a strong potential to recover when the dust settles.

Failing to diversify your portfolio

You should never put all your eggs in one basket. Investing in only a handful of stocks is a considerably risky move in general. Doing the same thing during a recession entails even greater risk. Diversifying your capital across several assets can help you mitigate losses if one or a few of your bets do not pan out.

Exchange-traded funds (ETFs) provide you with a convenient solution to invest in the stock market during a recession while avoiding these mistakes. An index-tracking ETF like **Horizons S&P/TSX 60 Index ETF** (TSX:HXT) could be a viable way to gain exposure to a diverse group of high-quality stocks in the form of a single investment product.

The fund allocates its assets to invest in shares of the top 60 Canadian stocks by market cap. Well-capitalized companies are likelier to recover from a recession. HXT ETF could become a strong value bet if you are bullish on the recovery of the top 60 publicly traded Canadian companies.

HXT ETF is down by 12.88% from its 52-week high at writing. The fund is currently oversold, and there is a chance it will decline further if the market weakness persists in the coming weeks. Investing in the fund could let you capitalize on the returns from its recovery when the markets eventually settle down.

Foolish takeaway

Stock market investing is inherently risky. It is important to remember that no investment product is immune to the impact of a broader pullback. Mitigating the risks to your capital and staying invested could offer you the best possible way forward during a recession. Horizons HXT ETF could be a strong bet for you to consider for this purpose.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HXT (Horizons S&p/tsx 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/10/02
Date Created
2022/06/24
Author
adamothman