Is it Safer to Pull Your Money Out of the Stock Market or Keep Investing for Now?

Description

Several metrics signal an oncoming of a recession. The stock market has pulled into a bearish stance. It is natural to be fearful and look for safer options. Is it safe to pull money out of the stock market? If you do, you are doing the opposite of buying the dip and selling the rally.

Is it safer to pull your money out of the stock market?

The TSX Composite Index is down more than 12% this year and is likely to fall further, as the economy plunges into a recession. It is time to revisit your portfolio and analyze each stock for its merits and demerits, keeping in mind whether the company can recover from a recession. Ask yourself the below three questions:

- Why did you purchase the stock?

It could be for long-term growth prospects, dividends, or short-term rallies.

- Does the stock have the fundamentals to withstand two years of slow business?

See if a company has cash reserve to pay for the next two years' debt maturities. A loss-making company can still survive a recession and recover stronger, but high leverage could lead to delinquencies.

- Does the growth stock have long-term, secular demand?

The company you invested in might be posting losses and still have a cash reserve to fund these losses for years. But does it have a demand for its products and solutions?

Air Canada vs. Nvidia: Should you invest or sell?

I will analyze two stocks based on the above three questions.

Air Canada stock

Air Canada (TSX:AC) is a stock you might have purchased to take advantage of the post-pandemic rally. But now that rally is almost over, AC would have returned to normal growth. But a recession delayed this growth.

Can Air Canada survive a recession? It has $10.5 billion in cash reserves and $4.4 billion in long-term debt due in the next two years. The company has enough cash to avoid delinquencies. But a slowdown in demand during a recession could once again put Air Canada into capacity mode, leading to cash burns. These cash burns won't be as high as the pandemic peaks of $1-2 billion a quarter, but they would run into millions. And Air Canada has the cash reserve to bear these cash burns.

Does this mean you should hold Air Canada, hoping for it to revive in an economic recovery?

Air Canada enjoys strong travel demand, but it is not exponential. The high demand only got AC to a 3.4% net profit margin in the 2019 peak. Servicing the more than $15 billion long-term debt on its balance sheet could eat up the 3.4% net margin. Instead of holding Air Canada stock to the grave, you can sell the stock, take the hit, and give that money a better chance to grow.

Nvidia stock

Nvidia (NASDAQ:NVDA) is a stock you buy for long-term growth. The stock has returned 148% in five years and 3,700% in 10 years after considering the 60% fall since November 2021. The company's revenues are falling because of

- A decline in PC shipments;
- The United States ban on artificial intelligence (AI) chips to China (Nvidia's major market); and
- The abundant availability of second-hand graphics cards that crypto miners dumped in the secondary market.

But these are temporary setbacks, and Nvidia's graphic cards continue to enjoy the secular trend of AI, autonomous cars, visualization, 5G, and gaming. The stock has fallen 63% since November 2021.

After taking a 50% hit on its net profit, Nvidia's net profit margin was 19% in the second quarter. It has a net cash position of $7 billion, which will keep it going throughout the recession. A demand slowdown would buy it time, as the semiconductor industry works around the chip supply shortage.

Put your money to optimal use

Another look at your portfolio will help you determine which stock is safer to sell and safer to invest in a bear market. Do not sell a stock with long-term growth prospects just because it is down in the bear market. Take this opportunity to keep investing in it.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:NVDA (NVIDIA Corporation)
2. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Investing
2. Stocks for Beginners

Date
2025/07/02
Date Created
2022/10/16
Author
pujatayal