Alert: Top 3 Stocks To Buy in the Next Market Crash

Description

Recent comments from the U.S. Federal Reserve regarding zero interest rate policy through 2022 at least has provided additional volatility for already shaky financial markets. On the one hand, further monetary policy stimulus should provide a boon for stocks overall. On the other hand, this timeline indicates tough times could be on the horizon for the next couple years.

Here are a few strategies investors can undertake to add downside protection.

Greater diversification

Even those foolish investors who prefer to choose stocks (like myself), having a high level of diversification is important to insulate one's portfolio from concentration risk. Having too many of one's eggs in any given basket is not advisable for any investor. In that regard, exchange-traded funds (ETFs) can be a great way to go to build on an investment base.

By having a significant chunk of one's wealth in an index-tracking ETF, and potentially layering on top individual stock picks, an investor can assure himself or herself roughly market-average returns. These will be adjusted for the performance of the high-conviction stocks one chooses to include.

One of the best ETFs for broad diversification at a low fee is the **SPDR S&P 500 ETF Trust**. This ETF tracks the broad **S&P 500 Index**, the most used benchmark for investors in the world. The companies included in this index are mostly U.S. based with global operations.

This ETF therefore provides a much higher degree of sector-specific and geographic diversification than similar Canadian ETFs. The management expense ratio (MER) charged by this fund is only 0.095%, a fee which is microscopic when compared to mutual funds or other products.

Higher concentration of defensive stock picks

Transitioning a certain percentage of one's portfolio out of highly cyclical growth stocks into defensive stocks is an excellent way to limit risk while staying exposed to the upside equities provide. Now is not the time to go all in on consumer discretionary stocks like **BRP Inc.** that require growth in disposable income and discretionary spending.

Rather, utilities companies with solid balance sheets and stable cash flows such as **Fortis Inc.** (TSX:FTS)(NYSE:FTS) would be better choices, in my view.

While the level of structural economic damage that has been done as a result of government-mandated restrictions on businesses remains unclear, we do know that millions of job losses and an astronomical increase in corporate bankruptcies is not good for the consumer discretionary sector.

Cycling toward highly defensive sectors is a prudent way to pick up, in many cases, great dividend income while we wait for a full recovery to take hold.

Bottom line

Predicting a bottom in the stock market is a fool's game (without a capital "F"). We may have already seen a bottom via March lows. Alternatively, we may retest those lows in the future.

Whatever the case, staying invested while reducing one's risk is a prudent way to stay level-headed through whatever mayhem may come our way. By implementing these two simple strategies, investors can put a portfolio together that will allow one to sleep better at night.

Stay Foolish, my friends.

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