

HOW CAN YOU PROTECT YOUR PORTFOLIO AGAINST THE SECOND WAVE?

While stock markets around the world staged a dramatic recovery between March 23rd and September 1st 2020, the fact is that COVID-19 cases are sharply on the rise again in many countries and we may face the prospect of a second wave that could put the first wave of the pandemic to shame. The reality is that we have never experienced the kind of crash that we experienced in March of this year before, we have never fought COVID before and we are seeing a huge amount of stimulus from our governments. The unprecedented amount of fiscal stimulus being applied to the economy by governments around the world, the historically low interest rates, and the paltry returns from bonds, provide support for stock prices. However, the recent sharp rebound in stock prices makes them vulnerable to setbacks in the short term.

The truth of the matter is that even the most experienced traders and investors are struggling to predict the market.

It is a crazy time in the markets and things are changing daily. Even though the market has recovered well since the crash, it is not yet “technically safe”. Companies are announcing loss in sales and increase in profits at the same time. Keep in mind that profit is what matters.

The stock market always responds to supply and demand. Some stocks may seem overpriced (and they may very well be), but if someone is willing to pay that price, are those stocks really overpriced?

The pandemic has induced a digital evolution, causing our work life and the way we do business to be different. Life is different and work will never be the same again.

Here are a few things to keep in mind as we go through the second wave of the pandemic and the upcoming U.S. elections and the short-term volatility that we may experience as a result.

Adapt and React to a World that is Changing and Evolving

Do not waste your time trying to make predictions. No one knows what will happen next. Instead get good at adapting and even better at reacting. Proceed with caution and have an exit strategy.

Make Risk Management Your Top Priority

There is no way to avoid risk when you invest in the markets. However, proper diversification, currency hedging, and use of cash and alternative assets can help manage your risk. If you make risk management your top priority, you can minimize your losses. It is that simple.

Take Advice Only from Qualified Professionals

Remember that your friends and family are not qualified to give you financial advice. In turbulent times it is even more important than before to only take advice from qualified professionals.

Take Any Money You Need in the Short Term Out of the Stock Market

Investing in the stock market is a good long-term strategy. The longer your investment time horizon the better your chances of success and the less your risk of permanent loss of capital would be. By the same token, you should not invest money you may need in the short term (to provide retirement income, pay for your child's education, purchase a home, etc.) in the stock market. Therefore, take any money that you need in the short term and cannot afford to lose out of the stock market.

Avoid Panic Selling

I have said this time and time again but every time there is a market crash most people seem to completely forget that they should not be doing panic selling. Those who fell into this emotional trap and sold their stocks at the end of March of this year and did not return to the markets soon enough, will be regretting that decision for years to come. Remember this the next time the market crashes and avoid panic selling.

Have Cash on Hand to Buy Stocks After the Next Crash

The sharp decline we experienced in the stock markets at the end of March of 2020 will not be the last one and if you live long enough you will experience many more stock market crashes in your lifetime. So have some cash on hand and be ready to invest that cash in the markets even though it may be emotionally difficult for you and most people may be reluctant to do so. Remember that you should get greedy when everyone else is fearful and you should get fearful when everyone else is greedy. History has shown that the best thing and the smartest thing you can do when stock markets fall is to buy more stocks, provided of course that you have a long investment time horizon. It will be no different the next time the stock markets fall.

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