

# Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



## Prepare for the Next Stock Market Crash

The S&P 500 continues to rise on the eve of the new presidency. The promises of lower taxes, fiscal stimulus from infrastructure spending, decreased governmental regulation and repatriated offshore corporate cash have many investors very excited. Why then do some analysts write about how to prepare for the next stock market crash? *Money Morning* says there is [stock market crash coming](#) and you should consider your investments based on that fact.

*The S&P 500 and Nasdaq both broke record highs last week (Jan. 6) as the Dow nears a record 20,000 points. But with stocks soaring, the possibility of a stock market crash coming is on the rise, too.*

*The stock market crash of 1929 was brought on by a stock market bubble.*

*Simply put, investors bought up stocks because they thought the markets would only go up. This led to investors taking risks they couldn't afford to.*

*Amateur investors borrowed \$8.5 billion (in today's dollars) to buy stocks with. As long as stocks kept going up, everyone was making money. And as long as more people were buying stocks, prices continued to soar.*

*But when prices began to fall, these investors were forced to sell, sending prices in a downward spiral.*

*The collapse of the stock market led to an 86% drop in the value of the Dow between September 1929 and June 1932.*

The same thing happened with the dot com bubble and the 2008 market crash. Initially there are good fundamental reasons to invest in undervalued stocks. And then stocks outrun their fundamentals but keep rising in price. Over-enthusiastic investors keep buying simply based on a rising market. This is a recurring theme. So, how do you prepare for the next stock market crash? What do you watch for?

### Will Supply Side Economics Work This Time Around?

In the 1980's supply side economics helped drive the economy and market to new highs. The same approach did not work out so well in the first years of the new millennium as witnessed by the market crash and Great Recession of 2008. *The New York Times* writes about how Trump [can't make it 1981 again](#).

*Indeed Mr. Trump's advisers say that over the next decade, their plans for tax cuts and deregulation could push the average annual growth rate back up to 3.5 percent – the same as during the Reagan presidency. Mr. Trump says the country can grow even faster. His backers dismiss skeptics as defeatists and have insisted there is "no law of nature or economics" that would prevent the United States from reviving the boom of the 1980s.*

*Only there is such a law. The forces that underlie economic growth have weakened significantly since the Reagan years, worldwide. No nation, no matter how exceptional, can try to grow faster than economic forces allow without the risk of provoking a volatile boom-bust cycle.*

For those who are still pouring their money into the stock market this article bears reading. Population and productivity per worker are the factors that drive growth. In the 1980's both population and productivity went up at about 1.7% a year and the economy grew by 3.5% a year. The US population today is growing by 0.7% and Trump wants to deport workers (illegals) which would reduce the already low growth rate. Trump supporters say that his other measures such as bringing corporate cash back to the USA will easily double the productivity increases of the 1980's. What happens when repatriated corporate cash is used for takeovers and not to create jobs? Our suggestion is that to prepare for the next stock market cash you increase your cash position and look at stocks like Johnson & Johnson that do well no matter which way the market is headed.

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