What to do in a bear market

Steven Podnos *10:50 a.m. EDT October 5, 2015*

QUESTION: This market is scary and I keep hearing about “bear markets” destroying my wealth. What do you think?

Podnos: We have not had a bear market (usually defined as a twenty percent drop or more in major market indexes) since early 2009, almost a record. We will certainly have one, but no one knows when. Since World War 2, there have been bear markets on average about every five years.

What should you do when markets take a tumble? Not having a plan in advance may be disastrous to your financial well-being. Yet, few individuals think this out. Those with a trusted advisor should have this taken care of, but having the discussion about what the advisor plans to do is recommended. I certainly saw advisors freeze up in 2008-2009 and never really recover. But more common was panicked behavior by individuals that either did not have help or a plan.

The first comment I’d have is to make sure that you do not own predominantly overpriced investments. These may indeed go down and not come back for quite some time. Think of tech stocks in 1999, which took 16 years to recover (although many companies did not recover at all). If you are concentrated in single sectors, or just the hottest stocks, or even perhaps currently in long-term U.S.-fixed income, you may have far to fall and long to recover.

So let’s assume you have a well-diversified portfolio when the bear strikes. In this case, it matters whether you are an accumulator or in the distribution phase of your portfolio. If you are still working and saving, a bear market is good news. It is a sale and an opportunity to buy stocks at a bargain price. Two particular strategies would be to increase your savings into stock buys, and/or to consider a reallocation of your portfolio from fixed income more into stocks. At the very least, it is a time to do nothing but to keep accumulating as before.

If you are in the distribution phase of live (retirement), then you should have two to three years of what you need from the portfolio is ultra high quality short term fixed income. Drawing on these funds in a bear market allows you to wait out the eventual return. If the market stays down, consider tightening your belt a little also. If you are early in retirement, consider rebalancing your portfolio to buy some of the cheaper stocks as well.

If you encounter the certain to occur next bear market with a plan such as above, you should not lose sleep. If you are uncertain how to accomplish this plan, get some Fiduciary help and talk it out in advance.

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