3 Timeless Tips for Surviving a Bear Market

Description

The financial media as of late—in both Canada and the U.S.—has been overrun with headlines talking about the potential for another bear market. It's clear why. A 10% correction in the TSX in August followed by news that we are in a recession has put investors on edge.

Is there any accuracy to claims that a new bear market is upon us? It is impossible to know for sure, but one thing is clear—another bear market is inevitable, and the length of the current bull market suggests it will be sooner rather than later.

While the prospect of a bear market may seem daunting, investors shouldn't be concerned. Rather, they should refocus on some key principles that have helped investors weather bear markets successfully for decades.

Why we may be headed for a bear market

Before getting into how to weather a bear market, it is important to understand it. A bear market is defined as a market that falls 20% from the peak. Unfortunately, bear markets are not uncommon.

Since 1956 there have been 12 bear markets in Canada, with the average bear market losing 28%, and lasting nine months on average. One of the main reasons that talk of a bear market has increased is because we are due for one.

The average bull market since 1956 lasted about 50 months, and the current bull market, which began in March 2009, is currently 78 months old. With the largest bull market in Canadian history lasting 90 months, the odds of one happening sooner rather than later is likely.

Regardless of when a bear market happens, there are three key principles that have always helped investors come out ahead.

1. Properly diversify your portfolio

Diversification is the best defense against a bear market, and this means diversification between stocks, industries, and geographic diversification.

Firstly, Canadian investors need to realize that the TSX itself is very poorly diversified. The top 10 holdings on the TSX represent 36% of the index compared with the top 10 holdings of the global equity markets only occupying 1.2%.

To make matters worse, the TSX is overwhelmingly comprised of energy, financials, and materials stocks. These sectors may get hit harder during a recessionary environment, and investors should consider increasing exposure to healthcare, technology, and consumer discretionary names.

In addition, investors should consider holding stocks with more global (particularly American) exposure to insulate against any country-specific risks. Canada, for example, is overwhelmingly affected by commodity prices.

Brookfield Asset Management Inc. (TSX:BAM.A)(NYSE:BAM) is one way to instantly diversify your portfolio. Brookfield owns property, infrastructure, renewable energy, and private equity funds, with operations spanning the entire globe and only a small portion in Canada.

These types of assets are known as “real assets,” and these are physical assets that produce stable cash flows that are often regulated and governed by long-term contracts.

2. Don’t time the market by selling

When markets are plunging, it can be tempting to sell. Selling, however, is unwise because it means you are essentially trying to time the market by predicting it will go down further.

It is important to remember that just like you were unable to predict the decline, you will also be unlikely to predict the rebound, and this can cost significant amounts of money.

A study by Mackenzie Investments found that with $10,000 invested over the last 20-year period, simply missing the best week would reduce average annual returns from 6.1% to 5.4%. Missing the 10 best weeks would drop returns to 1.8% annually, costing over half the total return.

3. Invest in high-quality dividend payers

Research by JPMorgan has found that dividend-growing stocks have outperformed companies with non-growing dividends or no dividends over the last 40 years. This is true for bear markets as well, and U.S. stocks with growing dividends fell by 16% less than the overall market during the last recession.

In Canada, there is no better dividend name than **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). Enbridge has grown its dividend every year since 1996, and expects to boost its dividend by 14-16% annually going forward.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)

2. NYSE:ENB (Enbridge Inc.)
3. TSX:BN (Brookfield)
4. TSX:ENB (Enbridge Inc.)

Category

1. Investing

Date
2025/08/03
Date Created
2015/09/11
Author
amancini