Should You Be Cautious of a Falling Market?

Description

The **SPDR S&P 500 ETF Trust** (NYSEARCA:SPY), which is representative of the U.S. stock market, has been trading in a channel since August 2015. This is the third time it reached an all-time high of about US$210 and the second time it's bottomed at US$185.

Is this a market top?

Some analysts have said that the quick fall in August 2015 wasn't a normal one and that this could very well be a market top.

With the market having gone up for seven consecutive years, some wonder if the bull is getting tired.

Should you be cautious of a falling market?

What should investors do in such a market? Should you worry about it falling?

These questions can be answered based on your financial goals. Investors need to stay at least partially invested to remain investors. For example, a retiree who needs current income and income investors won't get an income if they exit their positions.

If you'd bought **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) on the dip at $85 early this year, you'd have gotten yourself a nice yield. In fact, your yield on cost would now be more than 5.5% thanks to the bank's dividend hike in March.

In the past five years, the high end of Canadian Imperial Bank's dividend yield range has been above 5%. So, anytime it reaches a yield of above 5%, it may be an opportunity to buy some shares.

However, if you have a sizeable portfolio and you know that the income generated from your portfolio won't be enough to sustain your lifestyle in retirement, and you know you'll need to sell some shares for capital gains sometime soon, you should think of ways to protect your nest egg.

How to protect your portfolio

One way you can protect your portfolio is by looking at individual companies. For example, I exited my position in **The Coca-Cola Co** (NYSE:KO) last month before it reported its earnings.

It was trading at more than 23 times its earnings, and the last time that happened was in 2007. Other than being overvalued, Coca-Cola is also expected to report lower earnings than previous years because a part of its consumer base is shifting away from soft drinks.

On top of that, its payout ratio is 70% based on its 2015 earnings. Its payout ratio has never been this high, and it could be the new normal. So, dividend growth going forward will depend more on its earnings growth rather than payout-ratio expansion.

Conclusion

If you care only about the income from your investments, you only need to buy quality companies that are at a high yield (compared to its history), which is usually when they dip and are priced at decent valuations.

If you care about your net worth, then you should analyze your holdings individually for their valuations and growth prospects and rebalance your portfolio accordingly.

If you feel uneasy about the market, opt to hold a bigger percentage of cash to soften any volatility that may come.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:KO (The Coca-Cola Company)
3. TSX:CM (Canadian Imperial Bank of Commerce)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/17
Date Created
2016/05/03
Author
kayng