How to Beat the Market as the Bear Emerges From its Cave

Description

Buy-the-dip investing has worked wonders over the past few years, while the bull market was still strong, but as we head deeper into correction territory, investors should readjust their expectations as there's a greater chance that such short-term rebounds won't happen, even if the dip in a company's shares are unwarranted. The bull market is growing old, and Trump's trade war could spell the death of the bull as we know it. The S&P 500 has to shed just ~10%, and we're gearing up to deal with the dreaded bear market that's been a long time coming.

Bull markets have to end eventually. Over the course of your investment career, you're going to run into a lot of bear markets (+20% declines from the peak) and sharp crashes. A lot of the time, such events are going to catch you completely off guard. Just two months ago, everybody was bullish, including long-time doomsdayer Prem Watsa, CEO of **Fairfax Financial Holdings Ltd.** (TSX:FFH). He'd been hedging his bets for quite some time, before throwing in the towel on most of his hedges and short positions after the losses became too much to handle following the Trump Bump.

The sentiment of investors has taken a 360-degree turn from excessive exuberance to fear and panic in a matter of months. But before you give into your emotions and sell all your stocks, it's important to remember that the change in sentiment could happen over the next few months.

There's no way to tell the future. For all we know, Trump could revert his tariffs since they're probably not going to "make America great again." And if that's the case, cue another market melt-up. Maybe there will be a meltdown like the one **Goldman Sachs Group Inc.** (NYSE:GS) and **JPMorgan Chase & Co.** (NYSE:JPM) have been forecasting over the next year or so.

Don't jump in and out of the market, because missing the best few days will severely cripple your long-term returns. Not to mention, your dividends won't be paid if you're out of stocks, trying to time the bottom before jumping back in. Odds are, you'll miss the rebound and the monthly income that you're slated to receive.

Nobody ever made a dime off panicking. While it's true some market timers jumped out of the market at the peak in 2007 to return at the bottom in 2009, most of us, including many professionals, will be unable to do so with such precision. Instead of worrying, simply prepare your portfolio, so you're happy whether markets soar or crash over the next year.

If the markets go down, how can you make yourself content in the event of a violent sell-off? Well, invest in rock-solid dividend-paying stocks and get paid while you wait for the rebound.

While others are panicking and dumping shares of every quality stock they own, you'll be able to collect the monthly or quarterly payouts, and as the price of admission in some of the highest-quality stocks go down, you'll be able to lock in above-average yields by purchasing shares of businesses that have been unfairly sold due to the fact that stocks in general are out of favour.

Defensive stocks are an "essential nutrient" for every balanced portfolio. Treat them as insurance policies if the markets implode. The markets are unpredictable, and they don't always go up, so not having insurance is quite dangerous! In the event of a violent sell-off, defensive stocks will still go down, but you'll have a growing dividend to depend on, and the magnitude of your losses will be substantially less than that of almost any other common stock out there.

Moreover, you may wish to supplement your portfolio with an actual hedge from a market downfall with shares of Fairfax Financial Holdings, which still has a "preservation of capital" approach and is protected from substantial losses in the event of a crash. Watsa may have a more bullish tone, but Fairfax Financial Holdings will always be focused on capital accumulation in the safest way possible.

With such a name in your portfolio, you really won't be as fazed as the average investor should Trump cause a global meltdown tomorrow.

Stay hungry. Stay Foolish.

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2. NYSE:JPM (J.p. Morgan Structured Products B.v.)
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Author
joefrenette