Strategies for a Market Recovery

Description

It appears that everything is roses again. Trade concerns are easing and everyone is all smiles. The market is shooting up without a cloud in the sky. According to the news, governments have the mood swings and attention span of a toddler. It's hard to believe that only a week ago, everyone was worried the market was in a tailspin from which there would be no recovery.

Is the world truly as unstable as that? Is it possible that governments, companies, and individuals make decisions on a whim, as it seems in the news? What should investors do now that everyone seems happy once again? It's time to take stock and make decisions regarding the future of your portfolio so you're as prepared for an upswing as you were for a downswing.

If you own high-quality dividend stocks, do nothing.

Investors who were wise enough to buy shares of solid dividend-paying companies like **Emera Inc.** (TSX:EMA), **BCE Inc**. (TSX:BCE)(NYSE:BCE), and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) when their dividends were pushing 5-6% and beyond should pat themselves on the back.

These companies have been paying and growing their yields for years and will most likely continue to do so. All the fears over interest rates gave investors an opportunity that doesn't happen very often.

If you bought BCE when it was trading around $52 a share, for example, you would have garnered a yield of around 6%. That price would have already provided a capital return of over 10% in addition to the dividend since the stock is now trading above $57 a share. But don't sell! Hold onto those shares and let the dividends give you cash for the next downturn.

If you own non-dividend stocks, sell some to provide a yield

As hard as it is to believe, the fall in high-valuation stocks like **Amazon.com Inc.** (NASDAQ:AMZN) never got cheap. Although many of these stocks fell significantly off their highs, they are still trading at extremely expensive valuations.

If you added to these positions and begin to see some capital gains, a good strategy (especially in a registered account such as a TFSA) is to sell some stock to generate a little yield.

As a rule of thumb, I try to get a 5% capital gain on my total invested capital each year to simulate a dividend of 5%, which provides a mental dividend that allows me to ride out a fall in the stock price. If these stocks shoot up again, you can practically guarantee that there will be another equally sharp drop at some point in the future.

Unfortunately, creating dividends in this manner also results in a return of capital, but that can be used to repurchase shares at a lower price if the stocks drop once again.

Record how you reacted to this latest downturn and create a strategy for the next one

Keep a record of what you did right and what you did wrong when everything fell apart. Did you panic and sell? Do you wish you would have added slowly during the fall? Is there a buy point you missed because you didn't plan ahead? Whatever the case, make sure that you keep a record you can refer to in the next downturn. Fool me once, shame on you; Fool me twice, shame on me.

For the record

Following these three simple steps will protect you from, and prepare you for, the next downturn in the stock market. Be prepared. Panicking and lack of preparation rather than falling stock prices are the biggest wealth killers for stock investing. Have your plan in place and build wealth for the future.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/26

Date Created
2018/12/03
Author
krisknutson