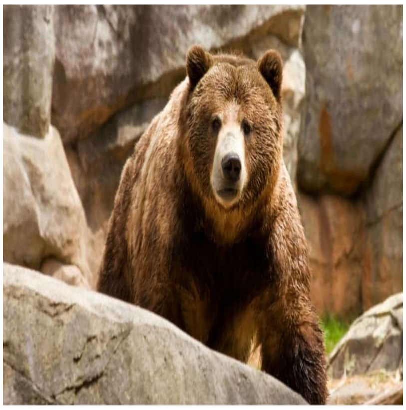

1 Simple Way to Prepare for a Bear Market: Lower Your Risk!

Description

The longest-running bull market has been a great party for investors. However, nothing will last forever, and all good things must come to an end. Many are scared because of the yield curve inversion. Historically, if this happens, an economic recession follows 17 months later.

If you’re a veteran investor, the situation is not alarming. There is resigned acceptance because a bear market is a part of a normal functioning stock market. You can prepare for it by implementing a simple strategy — lower your risk.

When the bear attacks

There are only two cycles in the stock market: the bull and bear markets. One cycle comes after the other, but a bull run is usually longer than a bear attack. In a bear market, you don’t have to suffer or incur losses. A countermeasure is to adapt and make adjustments to your asset allocation.

You can shift from stocks to fixed-income assets like bonds. But if you don’t want to give up on equities, take positions on defensive or lower-risk stocks. Dividend stocks are the known substitutes for bonds. Dividends can grow over time, and your overall return is higher than what bonds offer.

In the 2008 financial crisis, Canadian banks, whether big or small, didn’t ask for a bailout or cut dividends. Many investors stick with **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Laurentian Bank** (TSX:LB). The prices of both stocks fell between May 2007 and March 2009, the inclusive period of the recession.

RBC was trading at $57.32 at the start of May 2007 and fell by 36% to $36.64 at the end of March 2009. If you bail out near the bottom, it’ll have devastating effects on your total return. But if you stick to your long-term strategy, your gains could be so much more.

As of this writing, RBC’s price is $106.24, or 85.35% higher. The largest bank in Canada was able to endure the recession without having to forego dividend payouts to shareholders.

The market capitalization of Laurentian is just 1.26% of RBC's, yet this tiny bank did well too during the 2008 financial crisis. During the same period, the stock fell from $32.12 to $26.59, or a drop of only 17.22%. At present, Laurentian is trading at $45.30, or 41% higher than the price on March 31, 2009.

You can take comfort in the fact that RBC and Laurentian belong to Canada's banking industry, which is very stable and better prepared to deal with a financial crisis than its global counterparts.

Dividend all-stars

RBC and Laurentian are prime examples of stocks that could survive a bear market. Both are dividend all-stars suited for long-term investors. RBC was able to deliver a total return of 1,288.21% on a $10,000 investment made 20 years ago. The total return on Laurentian at the same capital and time frame is 414.54%.

The bond market is a haven whenever volatility is high in the equities market. But don't give up on stocks if you have RBC and Laurentian in your portfolio. You can stick to your long-term strategy and capture the long-term upside potential of the bank stocks.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:RY (Royal Bank of Canada)

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