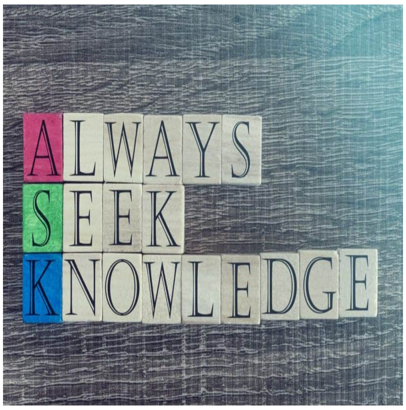

Worried About a Bear Market? Whatever You Do, Don't Do This

Description

Markets are falling. Stocks are experiencing their biggest drops in more than a decade. Oil prices, meanwhile, experienced their biggest plunge in *several* decades. There aren't many places to hide.

Investors are wondering how to react. Young savers are seeing their hard-earned money vanish. Retirees are worried that their nest eggs will be permanently damaged.

Whatever your age, the downturn is likely making you nervous. What should you do?

Rule number one

Downturns can be devastating to your financial life. The time to act is *now*. Many investors jump straight into portfolio management, but budget management is just as important.

It can be boring to revisit your budget or build one for the first time, but it's critical that you take a full accounting of your financial status. If you don't know how your assets compare to your debts or where most of your expenses are dedicated, your chances of trouble increase significantly.

The first thing to do is build a spreadsheet that covers your monthly expenses like rent, debt payments, food, and entertainment. Be sure to check your assumptions against your historical spending habits. Most budgets tend to underestimate expected expenses, so be sure to build in some wiggle room.

The second thing to do is tally up your total assets and your total debts. Then separate your assets into liquid assets (things that can be sold quickly to raise cash) and illiquid assets (items like cars and houses that take time to liquidate). Take a hard look at these numbers to determine where you're vulnerable.

Your final step is to stress test these scenarios. What if you lose a source of income? What if you have an emergency expense and your liquid assets fall by half? Importantly, run realistic *and* unrealistic scenarios. You never know what the future will be, but if you understand how your financial situation changes based on certain variables, you'll be one giant step ahead.

Rule number two

Only when you have the rest of your financial house in order should you start to optimize your portfolio. This brings us to the thing you should never stop doing: saving.

When markets crash, liquidity dries up. Millions of people suddenly have less money than they thought. Debt payments remain static, meaning cash flow issues become intense.

Throughout history, few people have had extra money to invest at market lows. Getting your financial house in order will allow you to take advantage. Surviving the crash is one thing, but being able to take advantage is a game changer. Imagine buying at the trough of the 2008 financial crisis. The gains would have been immense. The same opportunity is about to present itself.

Look at your latest budget and determine how much cash you can continue to invest on a weekly basis. Whether it's $50 per week or $500 per week, establish automatic contributions to ensure that you follow through on saving this sum. Almost every brokerage account allows for automatic contributions. They simply transfer a set amount of money into your investment account at regular intervals.

Establishing automatic contributions takes regular investing out of your hands. All you need to do is wait, and you'll continue to buy as markets dip. Of course, having the money to invest in the first place is the most important part. That's why building a budget *first* is critical.

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