Retirement Planning: How to Protect Your Portfolio From a Market Crash

Description

If you're investing over the long term, you'll see both bull and bear markets. Prices will never go in one direction for a long period, and investors should be prepared for a bear market that could put a big dent in your portfolio. However, there *are* steps you can take to protect your portfolio and your retirement savings.

Don't invest in speculative stocks

Choosing which stocks you put in your portfolio is an important decision. What's a hot stock today may not be so hot years, months, or even just weeks from now, which is why value investing is always the safest long-term approach to take. A bank stock, for example, is a safe and reliable way to not only generate decent returns, but also benefit from dividend income.

In contrast, a stock like **Bombardier, Inc.** (TSX:BBD.B) that constantly finds itself in the press for all the wrong reasons — and that's selling off businesses — is definitely not a suitable stock to put in your portfolio, especially not over the long term.

There's just too much risk there. Bombardier has lost 80% of its value over the past five years. It's struggled to stay out of the red and there's been no growth in recent years.

Bombardier's a good example of a business that's in trouble and facing many questions about its future. Long-term investors should stay far away. Although it's trading at a low price, that doesn't make it a good buy.

Bombardier's problems with quality and a poor reputation are signs that there are problems with its underlying business. For speculators who rely on price movement, the stock may be an attractive buy. But for long-term investors, Bombardier is nothing but a gamble.

Sell stocks within a few years of your retirement

Another thing investors can do when they're getting close to retiring is to start getting rid of stocks. When the financial crisis hit over a decade ago, it took over a year for the **TSX** to recover. To minimize your risk, especially when you're close to retirement, you may be better off rebalancing your portfolio.

When you're only a few years until retirement, sell shares and putting money into cash and bonds will help minimize your portfolio's risk. As the downturn related to the coronavirus has shown us, a bear market can happen quickly and without warning.

The only way to prepare is to ensure that you give your portfolio enough time to recover. It may well take a year or two for the markets to fully recover from the damage the coronavirus has caused, perhaps longer.

But by divesting of stocks before you retire while they're doing well, you can put your mind at ease and not worry about a possible market crash.

Although stocks are down today, they won't stay that way over the long term and they're likely to recover, just like they always have. But it's going to take time for that to happen.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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