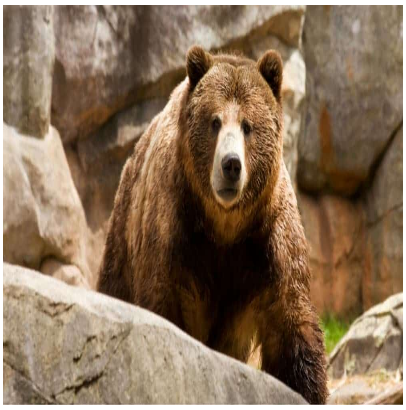

3 Tips to Prepare for a Bear Market

Description

Investors are sometimes complacent about the stock market. Many investors are getting very comfortable with stocks that have generally climbed higher. Quality stocks have certainly at least consolidated if not headed higher over the last 12 months.

It feels like the stock market could be due for a correction. From the pre-pandemic high, it has climbed another 19%. No one can tell when a bear market will occur. We just know that eventually, the bear will drive the bull away again.

Here are a few tips to help you prepare for a bear market.

Don’t buy if…

If you don’t find any quality stocks that are attractively priced, refrain from buying. You might have a list of wonderful businesses on your watch list. I don’t know about you, but the number of attractively priced stocks on my watch list has dwindled in recent months.

Many are fairly valued, which doesn’t warrant buys. Some investors would continue adding to the positions of top-notch companies, such as **Royal Bank of Canada** or **Brookfield Infrastructure**, even if they’re only fairly valued. However, that leaves no margin of safety in the near term. Therefore, if you have high conviction in a company that has a fairly-valued stock, to be prudent, buy a partial position in it instead.

By aiming to buy at more attractive valuations, you should boost your long-term returns.

Review your portfolio

Review your portfolio to determine if it needs rebalancing. For example, you might not want more than 2-10% in a single stock depending on how risky the stock is.

Stocks with volatile earnings, like commodity stocks, are high risk. You might hold a small percentage in these high-risk stocks (or none at all) in preparation for a bear market.

Similarly, for risk management purposes, you probably don't want more than 25% of your portfolio in a single sector.

On the other hand, you might want to hold on to your winners — those with strong price momentum and persistent growth in earnings or cash flows to back the stock prices. It's not to say that these stocks won't decline in a bear market, but they'll be the ones that investors first fly back to after investors flee from a bear market.

Raise cash

You need cash to take advantage of bear markets. To prepare for one, start raising cash now. You can invest less (or even none) for now. If you have excess cash for investment coming in every month, you might only invest, say, a third of it — and only if a stock is sufficiently attractive.

In today's expensive market, some investors are raising their cash position to 10-30% of their portfolios. If need be, you could even take profits when you rebalance your portfolio. You might be closing your positions in high-risk stocks altogether. For fully-valued quality stocks, taking partial profit might make sense.

More food for thought

If you have a hard time deciding on whether to take (partial) profit in a stock, review your original reason for buying.

For example, you might have bought some Royal Bank stock during the pandemic market crash, knowing that it will be a sure winner, providing decent price appreciation while spitting out nice dividends.

As the stock went from being a bargain to fairly valued now, shareholders are in a delightful position. They can choose to book (partial) gains or continue collecting a secure dividend income as a way to raise cash.

CATEGORY

1. Investing
2. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. arosenberg
2. kayng

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/27
Date Created
2021/08/18
Author
kayng