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2810 East Oakland Park Boulevard, Suite 101
Fort Lauderdale, Florida 33306
(866) 405-1031

www.ASKGLOBALWEALTH.com

SMART INSIGHTS FROM PROFESSIONAL ADVISERS

To Be Ready for a Bear Market, Start With a Portfolio Analysis

By ANDREW M. COSTA | Global Wealth Management

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The time to check your risk tolerance level is well before a bear starts poking its nose into Wall Street's business.

It isn't much fun worrying about a bear market when things are going so well.

Whether you're the type of investor who checks on your holdings every day or someone who glances at your account statements just once a month, it's hard not to get caught up in the euphoria of this record-setting bull market.

But somewhere in the back of your mind, you must know it can't last forever. No one can predict when a downturn will occur, but periods of rising prices are eventually followed by periods of falling prices. The swings are just a part of investing. And you can never let your guard down.

Here are some steps you can take now to prepare for a bear market:

1. GET A PORTFOLIO ANALYSIS.

If you do only one thing to prepare for a downturn, you should have a risk analysis performed on your current portfolio. Your adviser can use this data to show you how you're doing now but also to demonstrate specifically how you would fare in a downturn like those we had in 2001 or 2008. And the two of you can use that conversation to determine your "mercy point" — how much you're truly willing to lose in a bear market. That might be 20%, 10% or whatever you can stomach. You can build a portfolio now that will help guard against a larger loss than you're prepared to take.

2. CONSIDER ALLOCATING SOME MONEY TO CASH.

Actually seeing how much risk is in your portfolio could provide just the nudge you need to do more to help protect your nest egg. Or your analysis may show that you're already prepared, and you can proceed with confidence. Either way, you might want to move some of your money to a cash allocation, such as a money market account, to help mitigate the risk of a falling stock market. Having some cash to fall back on in tough times can assist you from making an emotional decision to sell low. But it's also smart to have some money set aside in case you want to buy low.

3. INVEST IN COMPANIES THAT CAN SURVIVE — OR EVEN THRIVE — IN A BEAR MARKET.

If you want to remain invested in stocks, look for high-quality, stable companies in industries that aren't as dependent on economic prosperity, such as essential consumer goods, utilities, health care and telecommunications. There are no guarantees, of course, but typically, these defensive stocks don't drop as far and may even do well in a bear market.

4. LOOK AT ALTERNATIVE INVESTMENTS.

If you've been sticking to a traditional age-based stock-bond mix (60% in bonds when you're 60, for example, and 40% in stocks, according to the rule of 100), it might be time to shake things up a little. Your adviser can help you diversify further with real estate, commodities, senior loans and other investments you might not have thought were available to you. These assets aren't immune to risk, but their risk isn't directly tied to the stock and bond markets.

5. THINK ABOUT ALLOCATING A PORTION OF YOUR PORTFOLIO TO FINANCIAL PRODUCTS THAT OFFER PRODUCT GUARANTEES*.

This might be a fixed index annuity, certificate of deposit or government securities. These conservative financial products may or may not provide interest credits but offer principal protection.

Preparing for a bear market — or taking advantage of it — starts with knowing where you stand.

I think most people — particularly those who are near or in retirement — believe they are moderate or even conservative investors. Then we look at their portfolios, and we find they're exposed to much more risk than they're comfortable with.

A portfolio analysis can help put it all in perspective. If you're anxious about the results, it's a good starting point for a discussion about reallocation. But it also may confirm that you're fine and ready to handle just about anything.

That's where you want to be — no matter when the bear shows up.

Kim Franke-Folstad contributed to this article.

Andrew M. Costa is managing director and co-founder of Global Wealth Management in Fort Lauderdale. He is co-host of The Global Wealth Show, a financial radio show on 610 WIOD and iheartradio.com. Costa, a recognized professional in the investment management business, also has provided financial insight in "The Wall Street Journal," "USA Today" and "Newsweek," and has appeared on CBS, NBC, ABC and Fox.