How To Survive The Coming Bear Market

[Editor's Note: My monthly post at Physician's Money Digest is titled "[How To Survive The Coming Bear Market.](#)" Experienced investors know there is always a bear market coming. Although you never know exactly when, a long-term plan that takes bear markets into account prevents portfolio disaster.]

Financial journalists tend to only write about and discuss what to do in a bear market once the bear market has begun.

People are usually reactive, rather than proactive, when it comes to investing. When stocks go up, they buy more. When stocks go down, they sell. This childish behavior accounts for the dramatic differences between investor returns and investment returns extensively documented by firms such as Dalbar and Morningstar.

Buying high and selling low is an all too frequently experienced investment disaster.

A bear market is generally defined as a 20% drop in broad stock indexes. It has been 61 months since the end of the last bear market in March 2009. The average bull market is only 41 months long. In fact, our current bull market is the second longest the US has seen since 1932.

History may not repeat itself, but it often rhymes. There is no doubt that a bear market is coming, even if we have no idea when it might begin. Now is the time to make sure you are ready for it. Successful investing is more about managing risk, particularly your own behavior, than anything else.

Don't try to time the market
Most people, when asked how to prepare for a bear market in stocks, would suggest the obvious and intuitive response: sell your stocks now before they go down.

Unfortunately, market-timing like this is a loser's game. Not only do you have to time the market successfully once (when to get out), but twice. If you sell a little too early, you will miss out on significant gains at the end of the bull market. If you get back in too late, you will miss much of the subsequent run-up.

In 2009, the market climbed 40% in just 3 months from its nadir. Clearly, market timing is not the way to survive the coming bear market.

While a buy-and-hold, stay-the-course investor may suffer terrible losses from market peak to market valley, he will also enjoy every bit of both of the bull markets bracketing the bear, while minimizing the investment expenses and tax costs inherent in a more active pursuit.

Don't despair
Although not necessarily in astronomical terms, but certainly in investing, the night is always darkest before the dawn. The best returning investments you will ever make will be those you purchase in the depths of a bear market. However, it is extremely difficult to do so.

Newspaper headlines will remind you every day for months how much money you are losing. The talking heads on CNBC will spend hours daily spouting doom-and-gloom prophecies and bringing every perma-bear guest they can scrounge up. Your co-workers will be talking about how they sold their stocks "long ago" at the water cooler. Your spouse will look at the most recent account statements and ask "What are you doing with our money?" You will see years worth of carefully budgeted 401(k) contributions disappear. You may even say, "I should have bought that boat or remodeled the kitchen instead of maxing out the 401(k)."

I can assure you, it will not "feel" right to buy stocks at moments such as these. However, the best thing you can do is to make your investing plan as unemotional, logical, and automatic as possible, rather than going by how you feel.

Have a written investment plan
Now is the time to prepare for the coming bear market and the best way to do so is to write down an investment plan. That plan might say that you will hold 40% US stocks, 20% international stocks, and 40% bonds and that you will rebalance that portfolio once a year.

If you follow this plan, you will find yourself at the height of the bull market with a portfolio with only 30% bonds, and your plan will force you to sell high. At some later point, you will find yourself in the depths of the bear market with a portfolio that is 50% bonds, and your plan will force you to buy low.

This is a winning formula for investment success.
What do you think? What have you done to prepare for a bear market? Comment below!