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DEFENSE FOR A BEAR MARKET

The year 2022 has turned into a full-blown Bear Market. There are several ways you know when a bear market has begun, and right now, all of them are saying BEAR MARKET.

The S&P 500 for the year is so bad I have lost count of where we are. In the first half of 2022, we were down 22%. So with a loss of over 3000 points in the past two months, I am sure we are down a minimum of 25% if not more.

All the world markets are struggling, and inflation is raging. I believe that 2022 will be worse than 2008, and the question comes to mind of whether it will be as bad or worse than 1972. No matter what you perceive happening in these last 3 months, it is time to play Defense.

None of us control what happens to us in life. The mark of success is being able to assess a situation and respond, not in a panic, but with a decisive plan. While that is true in our day-to-day lives, it is certainly true in regards to the stock market and investing. We must take action when things go against us and get a defensive position in place to keep from losing huge sums of money.

So what are your options at this point? There are several things people do in markets like this.

PLANS OF ACTION

1. Do nothing and don't worry about defense. Carry on as if nothing is wrong. While easy to do, it will normally not leave you in a positive position. This is what is referred to as Dollar Cost Averaging. As prices go down, your dollar buys more of the stock and less when prices move up.
2. Wait for the market to bottom out and then continue to invest. Perhaps put a higher volume of cash into bonds.
3. Sell off all your holdings and keep them in cash reserves.
4. Use Stop Loss orders to get out after huge (or some) losses.
5. Move all current investments to CDs or Bonds.

Your age should help you to come up with the right plan. My current age is 71, so if I ignored the Bear Market and stocks drop 40%, and I am invested 50% in Stocks and 50% in bonds, I will lose at least 20% of my investments. At my age, it will take too long to recover. So my goal is to minimize losses to less than 7%.

If you are 30 years of age or under, you do not have to be nearly as concerned. Full stock market indexes will over time, pull in typically around 12% average per year. So a 20% loss can be overcome. But if you are 30 years old, most likely you will only have 20% of your money in bonds, meaning a larger than 20% loss on your stocks. So I will explain what I have done personally, and then give you some pointers to use no matter your age.

For the first half of 2022, I continued to invest weekly as usual. I took most of my investments in Dividend Growth Stocks or Full Stock market index ETFs. I also invested about 20% of my money into Treasury I-Bonds which are currently paying 9.62%. Read about I-Bonds in 2 of my earlier articles.

https://lifecanbesimple.net/blog/safe-place-to-invest-50-today

https://lifecanbesimple.net/blog/best-investment-for-end-of-2022

In my Schwab account where most of my Dividend Growth Investments are, they have held their own pretty well. However, my Fidelity and Vanguard percentages are negative by 8 to 10%. So for now, I am holding about a 5% loss for the year. Last month, after taking a course by Robert Kiyosaki, I implemented Stop Loss orders on 45 of my positions. I set them to sell when they hit 80 or 85% of the yearly high. The 20 or 15% drops are used to keep small dips from liquidating your positions. By the end of last week, over 15 of those stop loss orders had fired. The purpose of this is to prevent catastrophic losses. I did a whole article on how to save yourself from huge losses in the next article.

https://lifecanbesimple.net/blog/ways-to-protect-your-investments-on-huge-market-drops

After hitting the 29,200 market level this week, I decided that we are not near the bottom of this market. So instead of waiting to lose all 20% of most of my stock holdings, I liquidated about ½ of them. I am cash-heavy, but cash is a good place to be. I did not liquidate any of the Dividend Growth stocks at Schwab, although a couple of them did sell off on stop loss orders.

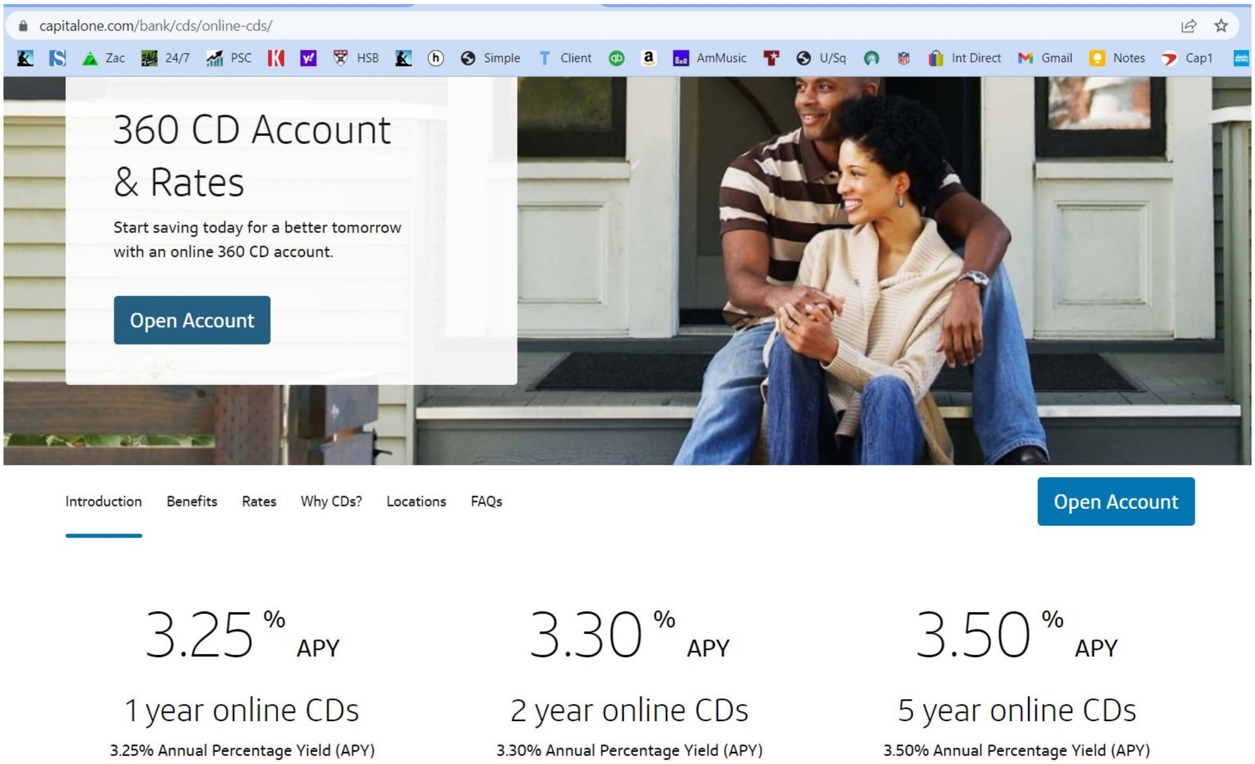
My plan is this. I will watch the market to see when the bottom hits. I expect it to be somewhere between 20,000 and 24,500. However, I could be wrong and it might happen at 27,000 or 28,000. My determination of the bottom is when we have 4 out of 5 days on an uptick. We have not had two days up in the past month that I know about. Now I have preached against trying to time the market, as you will lose a LOT of upturn on those first 3 days of upticks.

However, I would rather have all 90% of my money and miss a little bit of upside than run the risk of losing more than 10% in a huge downturn. While I don't agree with them, a few of the stock analysts are saying that we won't stop going down until we are under 5,000 points putting us back to 1972 levels. I pray this does not happen, but no one can predict the stock market. Signs of the times show that the world is in a huge upheaval. War in Ukraine, recession on the horizon, and huge inflation. Jobs are starting to get tight again.

So what are some of the ideas you could do with your money right now.

I say consider the I-Bonds first. Read those two articles and lock in on that 9.62%. When the rate resets in November, but I bet the rate goes above 10%. Even if it goes lower, 8% is good in today's market.

The second thing I am going to do is buy some 1 and 2-year CDs at Capital one. Check out today's rates.



If these rates go above 4% on 5-year CDs, I may buy a few of those. What I love about Capital One is there are no minimum investments. So you can buy $25 or $50 or $100 each week at whatever time period you desire.

Check out todays Capital One CD rates at:

https://www.capitalone.com/bank/cds/online-cds/

The main thing I urge you to do is take some precautions against catastrophic loss. If you can wait the market out, perhaps just leave the stocks alone and buy CDs and I bonds for the rest of this year. But stay alert, especially if you are over 50 years of age.

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