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Noel Swain: Imagine the Bear

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Just imagine, it's summertime and this eight year old bull market, the second-longest in US history, is still

running. You know that age alone has never killed one, and in fact, your stockbroker at Mammoth Money Management keeps giving you all the reasons it WILL keep going up! The financial media keep predicting higher and higher markets. You know it can't keep going up forever, but your portfolio is doing so well you shove those little seeds of doubt to the back of your mind.

But then along sometime in August the market drops 5%. Your stockbroker calls you to tell you it's temporary. He suggests you use your dividends building up in your portfolio to buy more stock at these 'sale' prices. After all, buying on the dips has worked well for eight years, so you buy.

Then prices drop another 5% in September. He reminds you that the market corrected 10% in August of 2015 and January of 2016, and both times they caught back up in six weeks. He's confident, but you're starting to lose yours. Then October brings another 6% decline in values. At first you go into a state of denial, looking for any news that points to a rising market. A 16% loss is 'not that bad,' you say to yourself. But it sure doesn't feel very good.

Happiness arrives in November when your portfolio rises over 3% in the first week.

You get an email from your stockbroker

touting the beginning of the comeback.

You feel really good, so you and the Mrs. go out to dinner and even share a bottle of wine on Saturday night. But then the rest of November happens and the month ends with a 20% net loss.

In four months your \$700,000 portfolio has given up \$245,000 of value, and you have no idea what December holds.

You're 60 years old. Retirement is staring you in the face. Do you hold on, hoping the market will rebound quickly, or do you sell and cut your losses just in case this crash is not over? You don't want to admit that panic has set in, so you tell yourself you're just being realistic. But any outside person can tell that in this case, panic and realism look a whole lot alike.

I have been through a few of these cycles during my 33 year career. They tend to repeat. The circumstances are always different, but bulls turn into bears and bears turn into bulls. It's a waste of time trying to predict when and why they will turn, but it's not a waste of time to be prepared and have a plan in place before cycles change. Avoiding catastrophic loss and having dry powder available in a bear market is key.

Look at your portfolio and subtract 30, 40 or even 50%. Are you really ready for that to happen? The best time to increase downside protection is during an old bull market. A qualified, competent Certified Financial Planner should be able to help you make that plan.