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Bold Strategies In The Face Of A Bear Market Ways To Ease Your Retirement Anxiety

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The market is down and your portfolio is most likely down with it. This is the time when many people make the classic investing mistakes of getting more conservative, cutting contributions, or simply ignoring your portfolio. Believe it or not, there are ways to make the most of a bad situation. Though they may seem counterintuitive, here are some timely strategies to prepare your portfolio for long term gains.

Increase Contributions: If you have enough in your emergency fund, your job is secure, and you have additional room in your budget, increase your contributions to take advantage of lower stock prices. If stock prices continue to go down, do not despair! You will continue to buy at lower and lower prices, driving your overall cost basis down. When the stock market recovers to original levels, you will have made a profit.

Keep Rebalancing: Most people have a balanced portfolio of stocks and bonds. When the stock market drops, it is the stock portion of your portfolio that most likely went down too. Your overall balance of bonds has proportionately now gone up. If you sell some bonds and buy stocks to get your portfolio to the original ratio of stocks and bonds, it forces you to sell positions that went up or stayed static and to buy positions that went down, at lower prices. If the stock market goes lower, rebalance again.

Get More Aggressive: If you cannot add money to your portfolio, you can increase your allocation to a more aggressive portfolio by selling bonds and money market funds and buying more stock positions. But beware, this also adds more risk at a time when the economy is fragile, so implementing this strategy should be well thought out. In certain cases, this may be prudent. A young person with a high risk tolerance and long investment time horizon may want to consider this strategy. Someone close to retirement or retired, should only consider this if they were overly conservative prior to a stock market correction.

Consider a Roth Conversion: Converting a Contributory IRA or partially converting an IRA changes the tax structure of the assets. By converting those assets to a Roth during a bear market you allow future growth to occur completely tax free. Many people employed this strategy in 2009 and the stock market quadrupled from there. All their growth was completely tax free! The downside to this strategy, is having to pay taxes in the year the conversion was made. Those taxes should be paid from cash outside of the IRA for maximum benefit. If you deduct the taxes from your conversion, the strategy does not work nearly as well. In previous years, you also had the option of re-characterizing if you found the strategy did not work as you had hoped. However, that option no longer exists, so if you do a Roth conversion, it will be permanent. It is very important to work closely with your tax or financial advisor professional to make an informed decision.

Sell Investments with a Loss: If you have positions in a taxable account that currently have a loss, consider selling them to take a tax loss for the year. If you sell a security at a loss, you should not buy that security back for at least 30 days. This is called the wash-sale rule and it is triggered when an individual sells a security at a loss and, within 30 days before or 30 days after this sale, buys a "substantially identical" security, or acquires a contract or option to do so. This does not mean, however, that you cannot still be in the stock market or buy a security in the same industry. For example, an investor who purchased a technology stock that has decreased in value sells it for a tax loss. The investor, not wanting to miss potential upside within the sector in the next 30 days, buys a technology ETF to limit that risk. After 30 days, the investor can sell the ETF and buy back the security they previously owned, thereby staying within an industry they felt had upside and buying back their beloved stock at a lower cost basis.

Going through a bear market can be rough but it can also open up plenty of opportunities. If you remain calm, avoid the classic investor mistakes that often accompany bear markets, and instead employ some prudent strategies, you can increase your returns in the long term. Each of these strategies has its own advantages and disadvantages. You should consider each one carefully and consult with your tax and/or financial advisor before implementing.