INVESTING PORTFOLIO MANAGEMENT

6 Ways to Prepare for a Market Crash

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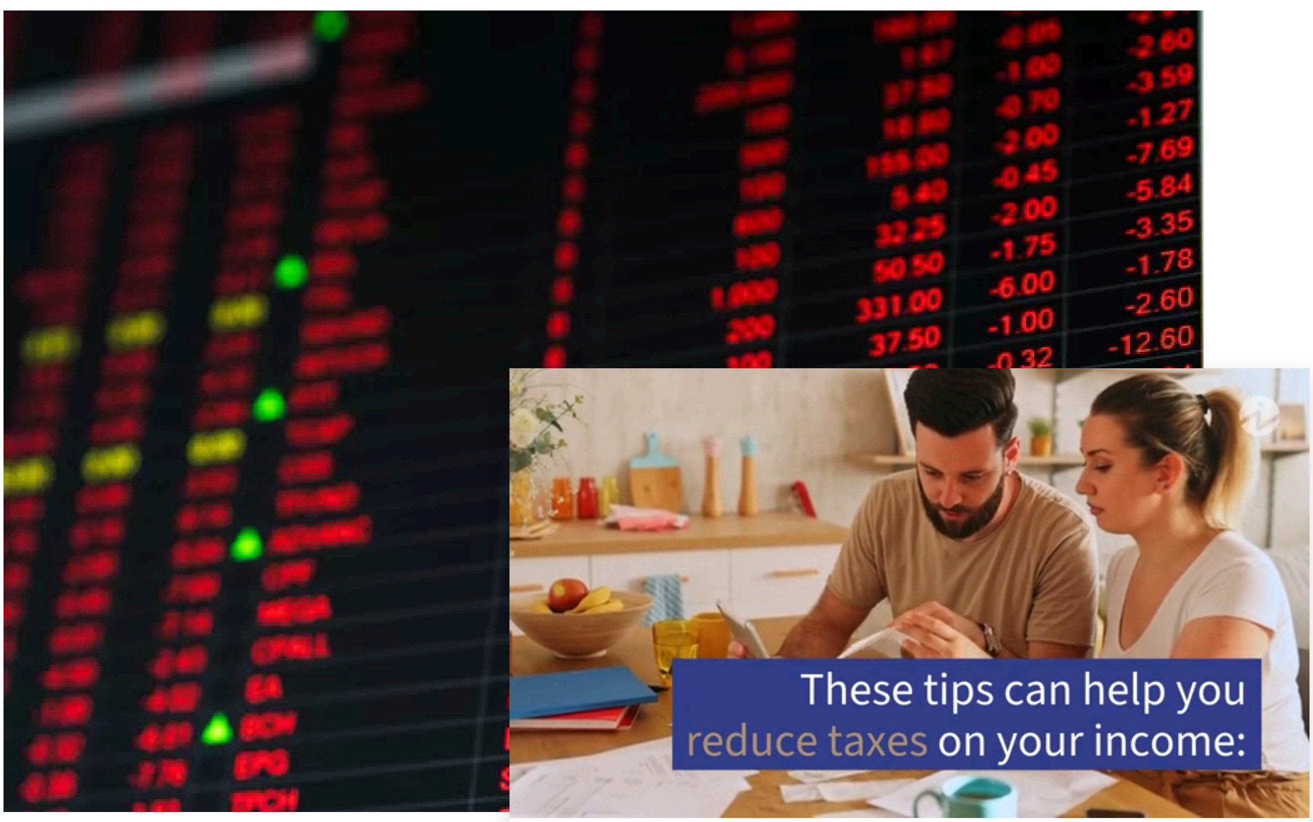

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earned savings and retirement funds could be wiped out in hours.

Fortunately, there are steps you can take to shield the bulk of your assets from a market crash or even a global economic depression. Preparation and diversification are the key elements of a sound defensive strategy. Together, they can help you weather a financial hurricane.

KEY TAKEAWAYS

- Investors can shield the bulk of their assets from a market crash or an economic depression with preparation and diversification.
- Diversifying your portfolio is probably the single most important measure that you can take to shield your investments from severe market difficulties.
- Most professional traders move to cash or cash equivalents when there is real turbulence in the markets.
- Keep at least a small portion of your portfolio in guaranteed investments that won't fall with the markets.
- You can also protect your portfolio by hedging your bets with options, paying off debts, and using tax-loss harvesting to mitigate your losses.

1. Diversify

Diversifying your portfolio is prob
you can take to shield your investr
on your age and your risk toleranc
of your retirement savings in indiv
exchange-traded funds (ETFs).

But you need to be prepared to m
something safer if you see a crisis

annuities, and precious metals are a few of them. You can even dabble in alternative holdings, perhaps with a small interest in a producing oil and gas project.

Spreading your wealth across several of these categories is the best way to ensure that you have something left if the bottom does fall out.

2. Fly to Safety

Whenever there is real market turbulence, most professional traders move to cash or cash equivalents. You may want to do the same if you can do it before the crash comes.

If you get out quickly, you can get back in when prices are much lower. Then, when the trend eventually reverse
appreciation.

Panic of 1819

The first economic and finan
characterized by bank failure
and a halt in investments. [1]

TRADE

just don't pay off well enough. But it's wise to keep at least a small portion in something that isn't going to fall with the markets.

If you are a short-term investor, certificates of deposit (CDs) issued by banks and Treasury securities are a good bet.

If you invest for a longer period, fixed or indexed annuities or even indexed universal life insurance products can provide better returns than Treasury bonds. Corporate bonds and even the preferred stocks of blue-chip companies can also provide competitive income with minimal to moderate risk.

4. Hedge Your Bets

If you see a major downturn ahead, don't hesitate to set yourself up to profit directly from it. There are several ways you can do this, and the best way for you will depend on your risk tolerance and your time horizon.

If you own shares of stock that you think are going to fall, then you could sell the stock short and buy it back when the chart patterns show that it's probably near the bottom.

This is easier to do when you already own the stock you're going to short. That way, if the market moves against you, you can simply deliver your shares to the broker and pay the difference in price in cash.

Another alternative is to buy put o
options or on one or more of the f
increase enormously in value if th
benchmark drops in value.

5. Pay Off Debts

If you have substantial debts, you
your holdings and paying off the debts if you see bad weather approaching in the markets. This is especially smart if you have a lot of high-interest debt such

Paying off your house or at least a good chunk of your mortgage also can be a good idea. Minimizing your monthly obligations is never a bad idea.

6. Find the Silver Tax Lining

If you are not able to directly shield your investments from a collapse there are still ways you can take the sting out of your losses.

Tax-loss harvesting is one option for losses sustained in taxable accounts. You simply sell all of your losing positions and buy them back at least 31 days later. (That means selling before the end of the current tax year to realize the loss before Jan. 1, and then buying the stocks back, if you so choose, in 31 days or later.). Repurchasing the stocks before this time would be deemed a wash sale by the Internal Revenue Service (IRS), and the ability to claim the loss would be disallowed.)

Then you can write all of your losses off against any gains that you have realized in those accounts. You can carry forward any excess losses to a future year and also write off up to $3,000 of losses each year against your ordinary income.[2]

Consider Converting to a Roth Account

If you own any traditional individual retirement accounts (IRAs) or other qualified retirement plans from former employers that you can move, consider converting some or all of them int
This will effectively reduce the am
income that you must declare.[3]

For example, a 30% drop in the va
you will not have to pay taxes on i

This strategy is a particularly gooc
part or all of the year, because you
with the conversion.

risk of loss when things go south. When you diversify, you spread your money across different asset classes. So you may have a mix of stocks, bonds, ETFs, mutual funds, cash, and government-issued securities in your portfolio. But you'll also want to invest in different sectors. For instance, your stock portfolio may consist of companies from different industries. The goal is to offset losses in one asset class or sector with gains from others.

What Does It Mean to Hedge Against Risk?

Hedging is a strategy that investors use to limit the amount of risk they experience from their investments. You can hedge against risk by buying or selling one investment to offset losses in another one.

What Was the Biggest Market Crash in History?

The largest market crash in history occurred on Oct. 19, 1987. Known as Black Monday, the day saw the largest single-day drop of all time, when the Dow Jones Industrial Average (DJIA) fell by 22.6%. [4]

The Bottom Line

Predicting the way the market moves, including whether it will crash, is impossible. Although there may be indicators and commentary that point toward a downtrend, there is no way to accurately determine if and when the market will plummet. Having said that, there may be signs that the market is in trouble, though. These include an increase in speculation, uncontrollable volatility, and very high levels of d
help you mitigate any losses that

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objectives, risk tolerance, or finan
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possible loss of principal. Investor
professional to determine a suitable retirement savings, tax, and investment strategy.

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which most stocks and sectors are mo

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