

21. Conclusion

Here are the major lessons you should have learned about bear market investing:

- **Adapt to survive**
Don't just carry on investing the way you have in a bull market. Bear markets require you to re-evaluate your portfolio, consider the full range of asset classes, select stocks using new criteria, and remain flexible.
- **Bonds**
Bonds may have a role in your portfolio, but it's important to understand the products thoroughly and to be careful which ones you pick. Don't forget that bonds can make you capital gains and losses just like stocks. Consider the liquidity aspect too: if you think you might want to switch out of bonds back into equities, consider choosing short or medium-term, rather than long-term, bonds.
- **Maximise the earning power of your cash, but keep it liquid**
If you decide to hold some cash, make sure you get a top-notch rate of interest consistent with your liquidity requirements. If you think you may want to withdraw cash to invest back in stocks, consider choosing demand deposits rather than 90-day notice deposits.
- **Be selective and defensive in your choice of stocks**
Consider shares that meet criteria of financial soundness, are in an industry with defensive attributes, and have lower than average share price volatility.
- **Be wary of indexing**
Think twice before investing in index funds which give you exposure to a very wide range of stocks. Certain components of the index may have a negative effect on the entire fund. A majority of bad stocks will have a counter effect on a minority of good stocks.
- **Measure risk and reduce it through diversification**
Careful selection and identification of good stocks means you have reduced exposure of your portfolio to bad stocks that may appear in an index fund. Use beta measurements to measure the risk volatility of individual stocks, and diversify to reduce the overall risk of your portfolio.
- **Observe strict trading disciplines**
Cut your losses. Pay attention to chart support and resistance points. Ignore the wilder elements of press comment and concentrate on a realistic assessment of the fundamentals of both the market and individual stocks.
- **Be ready for the upturn**
Bear markets do not go on for ever. At some point, sentiment, and prices dig themselves out of their rut. That's the time when you want to consider owning bull-friendly stocks bought at undervalued prices.