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How to Survive a Stock Market Correction.

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Stock Market Correction

Since the start of the year, stock markets have been consistently setting all-time highs. The momentum does not seem to stop, even when trigger events occur that would normally rattle the major market indexes. However, several high-profile hedge fund managers and analysts believe the markets are due for a correction. The traditional definition of a correction is when markets drop by 10 percent or more. If a major drop in the markets is on the horizon, here are some tips to help you survive any significant downturn.

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>
> *Patrick Mansfield*

Control Your Emotions

Successful investors survive market downturns by keeping their emotions in check. If you want to survive a correction, you need to learn to separate your emotions from your investment decisions. If a correction does occur, the news channels will let you know, and they will not stop letting you know.

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Consider a Correction a Buying Opportunity

If you are a long-term investor, an inevitable correction probably will not have much impact on your investment portfolio. Past market history shows corrections do not last very long. Instead, consider a falling market a chance to buy high-quality stocks at much lower prices. When the market decides to drop suddenly, start adding those high-flying companies that were too expensive to add to your portfolio a month ago.

Invest in Cash

If you fear a correction is on the horizon, it certainly will not hurt to liquidate some of your portfolio into cash. If you convert five to 10 percent of your portfolio into cash, you will have downside protection and cash on hand to buy high-quality stocks that are only falling because the markets are falling. During a market correction, the majority of stock prices will fall even if there is no real justification for the stocks losing some of their value. Cash on hand gives you leverage and presents a golden opportunity for you to capitalize on a price downturn.

Asset Diversification

Most long-term investors survive stock market corrections with a balanced portfolio. A blend of cash, stocks, and bonds will soften the initial blow of a 10 percent or more drop in the markets. For example, your stocks will take a hit during a correction, but bonds tend to perform well during market downturns. If you think the markets are primed for a significant drop, rebalance your portfolio so there is a good mix of stocks, bonds, alternative investments and five to 10 percent in cash.

If history is an indicator, a stock market correction will happen. The only problem is no one knows when a correction will happen. However, keep in mind the markets are setting all-time highs that have never been seen before, and at some point in the not too distant future, a correction will occur.

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