

Smart ways to respond to a down market

BY AARON CHASE

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If you're an investor, you may have been disappointed with how the markets have been reacting this summer to the news of high oil prices and other short-term events. Nonetheless, your long-term financial goals don't have to be jeopardized by these losses – if you know how to respond to them.

Here are a few moves to consider:

- Stick to your investment strategy. It's almost always a bad idea to make long-term investment decisions in response to short-term market fluctuations. If you have built a diversified portfolio of quality investments, you're better off just "staying the course" during a market decline
- Don't try to "time" the market. It would be great if you could know when the market had reached its low or high points, or which days would be "losers" and which ones "winners." If you had that foresight, you could always jump in and jump out of the market at the right times. Unfortunately, no one can make those predictions with any accuracy.
- Look for buying opportunities. By definition, a market decline means that stock prices are lower – which means you may find some good buying opportunities. Of course, you'll want to know if the stock's price is low because of the effects of the broad-based market decline or because of other factors specific to the stock, such as poor management, noncompetitive products or a decline in the industry to which it belongs.

While making these moves can help you get past the market decline, it doesn't mean that a severe price drop can't affect you. But you can avoid this problem by putting three to six months worth of living expenses in an emergency fund, preferably in a "cash" or "cash equivalent" account.

Nobody likes to see big declines in the stock market. But if you're a long-term investor, you've built an emergency fund and you've rebalanced your portfolio to fit your risk tolerance, you'll be in a much better position to withstand these market drops – and you'll be well prepared for an eventual recovery.

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