Five things investors should do now before the next downturn

Lorie Konish
CNBC, 8 Aug 2018

Lilli Day | E+ | Getty Image

When it comes to the markets, many forecasters are waiting for the big one.

And no, it's not the next stock to pop. It's the downturn that will end the nine-year bull market.

The market's run since the financial crisis is on the brink of reaching a historic mark. Next week, it is poised to cross a threshold that will make it the longest bull market, besting the previous record from October 1990 to March 2000.

The S&P 500 index has climbed 325 percent since its low of 666 in March 2009.

Despite those gains, the effects of the financial crisis still loom. Recent research from the Federal Reserve Bank of San Francisco estimates that the crisis cost every American about $70,000 in lost lifetime income.

Investors' memories, however, seem to have recovered. A Bank of America Merrill Lynch survey of fund managers released this week found that they are the most bullish on U.S. stocks that they have been since 2015.

Still, a downturn — or even a correction — can come at any time. Turkey's currency crisis has reignited some of those fears.

Financial advisors offer the following tips for how you can make sure you are prepared before a big dip.

Don't try to time the market

After downturns, the market has always recovered, said David Karp, co-founder of PagnatoKarp, though some recoveries have taken longer than others.

But trying to time the market is consistently a losing proposition, he said.

"You can get it right once, and I'll call it luck," Karp said. "But getting it right twice is what you really need to do … You've only won if you figured out when to get back in."

Have a defensive position

If you've worked hard to achieve a certain level of wealth, it is important to protect your money.

"Most people who are type A play to win," Karp said. "But once you achieve a certain position or certain place in life, it almost makes sense to play not to lose."

When investing, ask yourself if the reward is worth the risk.

"Make a decision from having been really thoughtful as opposed to just relying on the hope that the bull market continues and it continues to go up," Karp said.

Align your portfolio with your goals

Three things all investors should keep in mind when investing are their risk tolerance, time horizon and liquidity needs, according to Michael Conway, CEO of Conway Wealth Group.

"A portfolio really needs to tie back to total financial planning, overall cash needs and retirement modelling, rather than trying to time the market," Conway said.

If you keep those goals in mind, you will be less inclined to sway your portfolio with the market's ups and downs, he said.

Rebalance once a year

Take a look at your investments and gauge what has underperformed and what has outperformed the market, said Marguerita Cheng, CEO of Blue Ocean Global Wealth.

"If something has outperformed, it may make sense to pare back that position" and reallocate those funds to underperforming areas, Cheng said.

That helps to achieve the goal you should be shooting for: Buying low and selling high.

"You don't want to rebalance too much, but at least at a minimum once a year," Cheng said.

Have some cash available

Karp recommends investors have as much as 18 months of their money in cash.

That money, combined with routine interest and dividends, can make it so you know where the funds for your lifestyle for the next two to three years are coming from.

"Cash is absolutely priceless if you have it when you need it," Karp said. "And need it means in a market sell-off of 40 or 50 percent, you have the buying opportunity of a generation."

More from Personal Finance:
How investing $5 a day can lead you to $1 million
Here's how long $1 million lasts in retirement
Yes, you need to save for retirement. But don't forget to plan for your dreams