

4 ways to cope with this correction

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As of today, the All Ords will have pulled back more than 10% in less than two months. It's officially a correction now. Here are four strategies on how to cope.

1: Remember the long game

It's easy to get caught up in the emotion and the distress of experiencing sudden and significant wealth decline from falling share prices.

An ASX listed share is not an opaque financial instrument with no underlying value. Always remember a share is just that, **a share in a company** that (hopefully, and more than likely) has assets, reputation, history, staff, intellectual and/or physical property, revenues and cash - and hence the ongoing ability to generate profits and pay dividends to shareholders well into the future.

2: Clean out your house

If you do not do so regularly, a bear market is a great time to critically reassess each and every stock in your portfolio. (see point 1.)

Those stocks that you own simply because you thought you'd make money (a tip from a friend; a broker's idea; a hot float you subscribed for). If you own any stocks for nothing more than 'you think they'll go up', then **now is the time to sell them**.

In a bear market (at any time really) you should only own shares in companies in which you have positive long-term fundamental expectations.

3: Refrain from fighting against it

When share prices are falling, especially in companies in which you have confidence in their long-term outlook (pt. 1 again) there is often an overwhelming urge to 'prove the market wrong' and aggressively buy into the weakness.

Of course, this makes absolute sense, falling prices do provide more attractive value. However, experience has proven time and again that markets have a tendency to overshoot, both on the up and the downside.

Certainly, consider topping up holdings that are offering better value, but do this in a considered, thoughtful and unemotional manner, and over a period of time. Never wage war with the marketplace.

You will not win.

4: Don't bother listening out for the bell

Just as nobody calls the top of the market, nobody calls the bottom either. During sustained periods of market decline, there is always the feeling that the right thing to do is to sell everything and buy back in when the market bottoms.

The problem with this strategy is that the bottom is only evident after the fact and, indeed, markets have a tendency to rebound as fast, or faster than they decline. In 2009, post the GFC, the All Ords rose 25% in just 2 months.

More recently the All Ords put on 14% in four months of 2016). Being out of the market completely can be just as detrimental to long-term value creation.

You will almost never pick the top, and you will almost never pick the bottom.

In summary

It's certainly never easy, nor enjoyable navigating bear markets. But that's what we signed up for, both the risk and the reward. As markets fall the risk is creating increased potential rewards. Choose wisely, stay focused and good luck.

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