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# A five-step plan for surviving market madness

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*Investors have had plenty to worry about lately, but there are effective ways to stay calm during market drops and even use them to your advantage*

If you've been fretting about your investments, you're not alone.

Between China's plunging stock market, Greece's ongoing debt woes and – just in case investors weren't rattled enough – a three-hour outage on the New York Stock Exchange, this week featured more than its share of distressing news.

For Canadian investors, it's become a familiar pattern. Over the past three months, Canada's benchmark stock index has skidded by about 1,000 points, or nearly 7 per cent, as investors brace for a possible recession brought on by plunging oil prices and worry that China's market meltdown will exacerbate Canada's economic slump.

How are investors supposed to cope with all these unsettling developments? Instead of panicking and stuffing all of your money into savings bonds, here's a handy survival guide that you can stick to your fridge and consult whenever you feel the need.

By using these five steps, you'll be able to keep your cool when volatility heats up.

**Invest in quality**

Not getting bent out of shape by market declines starts with putting together a diversified portfolio of high-quality stocks or funds. If you invest in speculative stocks, or companies with an uncertain future, you'll be more likely to panic during market routs. That's why I invest only in well-entrenched, profitable businesses – such as utilities, REITs, banks, pipelines and large consumer-oriented names (plus a smattering of exchange-traded funds) – that I'm confident will survive whatever the economy throws at them and will continue to pay dividends in good times and bad. Devoting a portion of your portfolio to cash and fixed-income securities will also help to cushion the ride.

**Think like a business owner**

Because stocks can be bought and sold with a few clicks of a mouse, it's easy to focus on short-term trading and forget that your shares actually represent an ownership stake in a company. If you owned an apartment building or a small business, would you be tempted to sell just because the market was experiencing a hiccup and the value of your investment was down? Probably not. Yet many investors do precisely that with their publicly traded shares. If you think like a long-term business owner instead of a trader, you'll be able to ignore market fluctuations and avoid the common mistake of selling when prices are depressed.

**Focus on the long term**

As unsettling as market sell-offs are, they are an entirely normal feature of investing. Since 2000, the S&P 500 has suffered eight peak-to-trough declines of 8 per cent or more, including the severe bear markets of 2000 to 2002 (down 49.1 per cent) and 2008-09 (down 56.8 per cent). Yet markets have always bounced back. When you look at a stock chart a few years from now, the current decline on the S&P/TSX will be a mere blip – if you can see it at all. If you're not planning to sell for five years, 10 years or even longer, what happens this week or next month is irrelevant. It's also completely out of your control – so stop stressing about it.

**Count your dividends – not your paper losses**

Nobody likes to see the value of his or her portfolio fall, of course. That's why I prefer to focus on a different number that's always rising – the value of my dividends. Because most of my stocks raise their dividends at least once a year, and because I frequently reinvest those dividends and add new cash to my portfolio, my dividend income rises steadily no matter what gymnastics the market is performing. By focusing on the growing cash my portfolio churns out, instead of the paper value of my securities, I can ride out market slumps without panicking.

**Keep some cash on hand**

When markets plunge, even good companies get caught in the downdraft. If you're a long-term investor, you should actually welcome market sell-offs because they provide an opportunity to pick up great stocks when their prices are lower and their yields – which move in the opposite direction – are higher. By keeping some cash on hand, you'll be ready to pounce when stocks go on sale, turning a market drop into an opportunity. As Warren Buffett said: "Be fearful when others are greedy and greedy when others are fearful."



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