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The U.S. economy is putting up some impressive numbers in GDP, jobs and wages, but many pundits fear that a slowdown is pending. Trade-war fears with China and the European Union remain front and center in the news. And the yield curve is threatening to invert, meaning short-term interest rates may be moving higher than long-term rates. That?s often a sign of pending recession on its own. By some measures, the current expansion is now 10 years old, making it one of the longest on record. That seems ancient, but there?s no rule that says it can?t continue. Australia is in its 28th consecutive year of economic growth.

Even so, all good things do eventually come to an end. And for the U.S. *(and for Australia, for that matter)*, economists are looking for slowdowns. Even the Federal Reserve has indicated it is ready to lower short-term interest rates to combat any problems that may arise. Professional investment managers may look to sell a good deal of their holdings to step aside as the market falls. However, for most individuals, timing the market by selling when conditions seem dicey, and buying back when conditions firm up, is a big mistake. Even the pros don?t always get it right, and they have armies of analysts and rooms full of technology at their disposal. **Here are six ways to prepare for the next stock market decline.** The key is to make smaller adjustments to your portfolio to reduce risk and still be ready to participate when the market resumes its upward march.



**Sell Speculative Stocks** Investors often have stocks in their portfolios that come with a bit more risk than they might like. What might have seemed like a good idea ? think General Electric (GE) in 2015 ? may have been all smoke and mirrors. The market has a way of punishing these types of companies when times get shaky. Uber-investor Warren Buffett famously said, *?You only find out who is swimming naked when the tide goes out.?* A bull market tends to hide the sins of weak companies; when the bear comes knocking, they are the first to get hit. Even if they?re not a disaster-in-waiting like GE was, some companies just may not have the financial resources to withstand a prolonged period of hard times. They might have too much debt on their books. Or they might be in a cyclical business, such as steel or oil drilling, that will seriously contract should the economy stumble. Perhaps you have shares in a company where legal battles, instead of their increasing market share, dominate their headlines.

If you are getting nervous about the health of the stock market, lighten up on some of these weaker positions. Here?s a quick test: Any stock that hit a 52-week low in April or May as the Standard & Poor?s 500 hit a 52-week *(and all-time)* high probably will not fare well on a market swoon. The same goes for stocks at 52-week lows at today?s highs.

## Raise More Cash

Raising more cash simply means reducing the overall size of your invested portfolio. This could mean selling speculative stocks, as mentioned above, but keeping the proceeds in a money market fund. It also could mean cutting each sector of your portfolio by a fixed percentage. Let?s say you have four mutual fund positions ? a large-cap growth fund, a small-cap fund, a growth-and-income fund and an international stock fund. (It really does not matter what they are but this is a typical

illustration of how investors might diversify across stock categories.) If you trim each fund by 5% or 10%, keeping the proceeds in cash, you have reduced your risk without having to worry about which individual holding to sell. Of course, the percentage is up to you.
Just remember that this is a *tweak* of your portfolio. You are not timing the market, pe se, because you will remain largely invested.

## Give More Weight to Defensive Sectors

If you do not want to take any money out of the market, you still can reduce your risk by shifting more money away from aggressive sectors and into defensive ones.

Aggressive sectors typically include technology, consumer discretionary and arguably financials. Defensive sectors typically include consumer staples, healthcare and utilities. What makes a sector defensive is that its businesses are less affected by economic swings. Their products and services enjoy relatively stable demand and are the last that a consumer might give up in hard times. This includes food, medicine and soap. That big vacation and flat-screen TV would be examples of discretionary items that are often the first to get cut from a budget.
Defensive sectors lower your portfolio risk, but this comes with a price: When the market recovers, aggressive sectors usually outperform. The good news is that you still will be invested and should see gains without having to worry about timing your re-entry.The strategy could be as simple as adding a small portion of Select Sector SPDR exchange-traded funds (ETFs) in consumer staples ( XLP), health care (XLV) or utilities (XLU).

## Raise Allocation to Bonds

Portfolios benefit from owing a percentage of bonds or other fixed-income investments. While bonds typically do not offer the same capital appreciation potential as stocks, their relative price stability and income streams can offset weakness in stocks. One rule of thumb for a diversified portfolio across different asset classes is 55% stocks, 35% bonds and 10% cash. Of course, this will look a little or very different depending on your risk tolerance and how close you are to retirement. But let?s just say that you did not get this advice and you are all in stocks. The easiest thing to do is to sell a portion of your stocks and buy high-quality corporate bonds, Treasury bonds or a mutual fund that invests in them. Remember: We previously looked at raising 5% or 10% cash. Taking that money and moving it to a bond fund would go a long way toward reducing your portfolio?s volatility and smoothing your returns over time.

## Perhaps a Touch of Gold

If you follow the typical method of allocating your money across asset classes, you might hold 5% or 10% in gold or other precious metals instead of cash. Gold does not pay interest or dividends. What it does offer is a hedge against several headwinds, including inflation, economic calamity or war. None of these seem imminent, but if you are truly worried about the economy pulling back in a big way, a little gold would help you sleep better at night. That could be worth the price, right there. But we can probably do better. Gold stocks ? that is, mining companies that seek out the yellow metal ? are intimately tied to the price of gold but they still are stocks. They can pay dividends, though most pay very little. But they do have price appreciation potential, and that means you can remain fully invested, if that is your choice.
Shifting some money to gold stocks is very similar to shifting money into other defensive areas. Gold is different enough to warrant its own consideration.

## Don?t Panic!

Remember why you invested in the first place. You are trying to build wealth over time, not try to trade in and out of the market based on trade wars, interest rates, tweets or punditry. That means you will necessarily have to weather a few storms, but over time, the stock market (and investing in general) is the greatest wealth-building machine out there. For most investors, controlling risk is more important than trying to catch every wiggle in the market. If you stick in solid companies within the major trends in the world ? life-changing technology, aging-population health care or new energy ? and allocate a small portion for that potential home run, you will be able to have a long, successful career as an investor.
Control your risk. The rest will take care of itself.