How Much Will It Cost You to Stay in the Market?

Ron Paul, the perennial libertarian presidential candidate is in the news for predicting that the stock market will fall by 25% or even 50% within the next twelve months. *Market Watch* writes about Paul's assertion that **stocks may get chopped in half** within the year.

> *Last month, libertarian and multiple campaigner for president Ron Paul made headlines with his gloomy prediction that the stock market, plagued by an overrated recovery for the U.S. economy, could plunge 25% by October.*
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> *Obviously, not much in the way of positive news has come along since then to change his views. In fact, he just took his bearish outlook up a few notches.*
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> *"A 50% pullback is conceivable," he told CNBC, earning our call of the day. "I don't believe it's 10 years off. I don't even believe it's a year off."*
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> *That kind of damage would bring the S&P SPX, +0.09% down to 1,212 and the Dow Jones Industrial Average DJIA, +0.03% to 10,837.*

Paul is not blaming Trump but rather says that the causes of the upcoming market demise go back as far as the late Bush administration. Paul may not be right on the amount of a correction or the timing but eventually all rallies tend to overshoot and then correct. How much will it cost you to stay in the market through a correction?

Microsoft and the Dot Com and 2008 Crashes

Microsoft has done well in the last few years as have a handful of high end tech stocks. Its growth is reminiscent of the years preceding the dot com crash. What it cost Microsoft shareholders when the stock crashed in 2000 was 55% of value and that value did not come back until the start of 2013. The S&P 500 fell 40% after the dot com crash and after recovering to 1999 levels fell 50% in the 2008 crash. It would appear that with a big crash/correction that losing half of your portfolio value can happen if you stay in the market through the next crash. Although the broader market did as badly as Microsoft when things went bad, Microsoft is perhaps a better example of what might happen to the FANG tech darlings **when illusion replaces reality** as we noted last week.

Crash Proof Stocks

If you have seen your portfolio grow during the market rally is there a way to protect your gains aside from selling and holding cash? NASDAQ suggests a **crash proof way to bank 13%** in today's market.

The key to getting a strong return when stocks are overvalued is simple: you need to be selective, and you need to diversify into other investments. If you choose stocks that can withstand a correction, you're going to protect your portfolio; if you add other assets, like bonds, your portfolio is going to grow– even during a bear market.

Their suggestion is a 50% mix of dividend or preferred stocks and bonds. Two examples are PIMCO Dynamic Income Fund (PDI) and Goldman Sacks preferred stock.

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