How To Beat Back The Bear

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How To Beat Back The Bear

By Robert Rapier
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The fourth quarter has got off to a volatile start. The concerns are the usual list of suspects: rising interest rates, higher oil prices, slowing housing starts, slower earnings growth, and rising trade tensions.

As I write this, utilities and consumer staples — defensive sectors — are the only two S&P 500 sectors that are in positive territory for the month.

Investors are hoping that this sell-off is not the beginning of a 2008-2009 magnitude crash. I don't think that is likely, but the risks of a bear market are growing.

Bank of America recently reported that 14 of their 19 bear market sign-posts have been triggered. They further warned of the possibility of volatility that could persist for the next two years.

So it is understandable that investors would be nervous. As someone who has lived through many such corrections, let me offer some advice.

First, keep in mind that market recoveries ultimately follow market crashes. Unless you need the money soon, or unless you otherwise sell and lock in your losses, you will recover.

But, sometimes it takes a year or two to recover. That is atypical, but this is why you should not invest beyond your risk tolerance. If you are going to need the money soon, don't gamble with it. Money that you may need in the next two to three years should be invested conservatively.

For investments with a longer time-horizon, you can afford to be more aggressive. That has historically meant greater returns over time, but that also means greater volatility. It means that you will endure market corrections at times, which is what we are currently experiencing.

The Lessons of 2008

To cope with those market corrections, I find it helpful not to watch the market too closely. It can exacerbate your stress and result in emotional decisions.

During the 2008-2009 crash, I rarely looked at my investments. I was happy with my investment choices and convinced that they would do well over the long haul. They did, and then they soared in the ensuing recovery.

One final piece of advice. I have written previously about the conservative use of options to add a few percentage points to your annual returns. This is done by selling covered call options, or cash-covered puts. But you can also use options to protect big gains in the market.

If you hold shares of a company that you are not ready to sell, but you are afraid of a short-term correction, you can always buy puts to protect those shares. In the event of a sharp market drop, your shares will lose value but the value of the puts will soar, helping to buffer the losses.

The bottom line is that you should maintain realistic investment objectives and stick with your plan. Do not panic. This is a good time to reassess your risk tolerance and make appropriate changes.

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See ABOUT THE AUTHOR below

ABOUT THE AUTHOR

It is hard to imagine anyone better suited to covering the energy-investment waterfront than Robert Rapier. Robert is no armchair analyst—he has two decades of in-the-trenches experience in a wide range of fossil fuel and biofuel technologies, including refining, natural gas production, gas-to-liquids, ethanol production and butanol production. During a six-year stretch at ConocoPhillips, Robert ran a team of engineers in Scotland working on oil and gas projects in the North Sea.

For two years, Robert was an efficiency expert in a Texas petrochemical plant. The process changes he implemented saved the facility $9 million a year. He later worked as the Engineering Director for a Dutch environmental-technology company and provided engineering support for a Chinese facility the company was constructing.

Robert was also a butanol engineer in Germany for the Celanese Corporation, where he designed a novel butanol unit that cut production costs by $5 million per year.

In all, Robert has spent more than a dozen years working on liquid fuels technologies. Along the way he has picked up five patents, including one for a breakthrough way to convert ethane into ethylene (U.S. Patent 7,074,977).

Now, in addition to guiding readers to timely energy plays in his twice-monthly *Energy Strategist*, Robert travels the world evaluating start-up energy companies for deep-pocketed investors. After grilling management and assessing the technology on-site, he makes a go/no-go investment decision. His wealthy private investors and hedge fund backers trust him to make the right choice for the same reason we do: his vast real-world experience in just about every facet of the energy industry. If Robert votes thumbs-up, millions of dollars flow into these cutting-edge outfits.

Robert earned his master of science in chemical engineering and a bachelor of science in chemistry and mathematics (double major) at Texas A&M University. He tells us he was "this close" to finishing his Ph.D. before he decided he was having a lot more fun making money in energy stocks.

A prolific writer, Robert's articles have appeared in *Forbes*, *The Wall Street Journal*, *The Washington Post* and the *Christian Science Monitor* — and he has been a featured expert on *60 Minutes* and *The History Channel*. His new book, *Power Plays: Energy Options in the Age of Peak Oil* (Apress, 2012), helps investors sort through doom and gloom, hype and misinformation to understand the true costs, benefits and trade-offs for each of our major energy options.

In what little spare time he has left, Robert consults for a number of energy projects, including biodiesel, ethanol, butanol, and biomass gasification facilities.