"If something cannot go on forever, it will stop."

Herbert Stein

After relentlessly grinding downwards for sixteen months, in March 2009 most global market indices finally reached their nadir. Since then we have arguably been in the longest bull market since the Second World War. The S&P 500 has quadrupled from its low and, whilst the Australian market is up a mere 168% over those nine and a half years[1], this still translates to a relatively healthy annual return of 10.9%. I think it is probably safe to say we are closer to the end of this bull market than we are to its start.

So how should we behave in light of this situation? Selling everything and hiding in cash is not really a sensible option. There may capital gains tax considerations and the final stages of a bull market are often the most profitable.

A very savvy friend of mine once said to me, "Don't be an anxious buyer, and **never** be a forced seller." I think if we can follow these instructions (and particularly the latter) we will almost certainly beat the market over time. Cash is at the heart of both these actions. If you don't over-pay for things you're bound to end up with more cash than if you do, and always having enough cash can help avert a fire-sale. Holding a reasonable amount of cash may be a sign of a healthy portfolio.

I set a benchmark for retired clients of holding two years' living expenses (including "one-off" overseas trips, trading up to a new car and an "emergency kitty" for any unforeseen expenses) in cash and short duration term deposits. Over that period the prices and distributions of assets may fluctuate, but you won't have to sell anything to pay your bills. If you can maintain this discipline, your portfolio should be pretty close to bulletproof.

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[1] The weighted average return of Lighthouse portfolios over this period is 224%.

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