8 Tips for Surviving the Stock Market's Record Drop

Shock waves on Wall Street are palpable following the free fall of China's Shanghai Composite.

Experts say panicking is the worst move investors can make during this period of turmoil on Wall Street.

By Lou Carlozo | Aug. 26, 2015 | 9:00 a.m. EDT + More

Yes, it's entirely plausible that when Shanghai sneezes, Wall Street catches a cold. But try telling that to panicky investors and financial observers who will sadly suggest a more spot-on proverb: When Shanghai hacks up a lung, Wall Street runs for the safety of the bear cave.

Wall Street's historic plunge – in which the Dow Jones industrial average plummeted 1,000 points Monday before "bouncing back" to a 588-point loss – appeared to subside Tuesday, as the Dow and Standard & Poor's 500 index jumped 3.4 percent Tuesday morning. Call it an interest rate chill pill, as the People's Bank of China cut interest rates for the fifth time in nine months, while investors held out hope that the Federal Reserve might hit the brakes on an interest rate hike.

Still, it's far from a return to the bull market. "Investors are rightfully concerned," says Kyle O'Dell, managing partner of O'Dell, Winkfield, Roseman & Shipp in Englewood, Colorado. "But smart investing is never rash, and it's never reactionary."

"It happened so fast and was so powerful that no one could've predicted it even a week ago," says Jay Sukits, a clinical assistant professor of business administration at the University of Pittsburgh's Katz Graduate School of Business. "But the worst thing you can do is panic: to sell right at the bottom the market."

Got that? Don't panic. Instead, buckle down and follow the advice of these investment experts, who offer eight tips for making it through Wall Street's current woes.

Scoop up the deals. Keep in mind that China's troubles can't possibly derail strong economic indicators in the U.S., from improving job numbers to a robust real estate market. "The correction is a good thing for those who are now able to afford Apple (ticker: AAPL), Tesla (TSLA), Netflix (NFLX) and Amazon (AMZN)," says Todd Antonelli, managing director of Berkeley Research Group in Chicago. "We forget what goes up must come down. And this creates opportunity for all." Apple, for example, was up almost 17 percent between Monday's open and Tuesday's open.

Diversify now. No one knows for sure whether this is a temporary correction, as markets always defy logic. Are we in a spell of irrational anxiety? Regardless, it's crucial to build and manage a diversified growth portfolio, says Kevin Mahn, president and chief investment officer of Hennion & Walsh Asset Management in Parsippany, New Jersey. "That includes asset classes and sectors of the market not perfectly correlated with U.S. large-cap stocks. This is critical in the days and months ahead."

Beware of bonds. Many people will buy bonds, thinking it's a safe haven. "But what if you purchase 10-year Treasury or 10-year corporate bonds, and interest rates rise?" Sukits says. "If interest rates go up – and there's only one way to go, and that's up – you're going to get slaughtered." Which leads us to …

Watch those interest rates. It's a given that Wall Street will squirm once the Fed raises interest rates. But would that be all bad? "It's important to remember that equities generally continue to perform for several years after the first interest rate increase," says Chris Gaffney, president of EverBank World Markets and based in St. Louis. "Regardless of when the first hike occurs, all indications are that the Fed will remain very cautious about the pace of increases."

Count on oil to fuel the world engine – and China, too. Keep an eye on oil prices, for as long as they stay low, it's a good sign for the world's economies. "Depressed oil prices hurt oil producers such as Russia, Saudi Arabia, Iran and Iraq, but they help nearly everyone else," says Larry Elkin, president of Palisades Hudson Financial Group in Scarsdale, New York. "China will benefit from the decline in commodity prices. So will India and the rest of Asia, much of Latin America outside Venezuela and most of Africa. So, too, will Europe, and even the United States, for although we've become a leading energy producer, we're still a net consumer of energy produced elsewhere."

Focus on the long term. Remember what happened on April 22? Both the Dow and S&P 500 hit record highs. Remember what happened on March 9, 2009? The Dow hit a 12½-year low. And so it comes and goes. "You can't predict when a storm is going to hit," says Jonathan Gassman, co-founder of G&G Planning Concepts, a financial planning firm in Manhattan. "Yes, it may have an effect in the short term, but you've invested for the long term." So avoid getting seasick. "It's gut-check time. Use it wisely," he says.

Maybe it's the August effect. Even top-line investment pros need a vacation, and August is often when they take one. Expect investors to put on their game faces after Labor Day – just as we did during our school days, says Michael J. Driscoll, clinical professor and senior executive in residence at Adelphi University's Robert B. Willumstad School of Business. "The volatility of the markets may not end this week. But when everyone gets 'back to school,' analysts will decide that some companies have been oversold on fears that their industries will disappear. The countries that caused so much concern earlier in the summer will still exist. They may be growing slower or faster than anticipated – but they'll still be here," Driscoll says.

Beware the panic pundits. Don't panic? That might not be a slam dunk, given that you're going to hear a lot of doomsday talk in the next few months. Laugh it off. "Remember the 2001 book, 'The Coming Collapse of China'? In recent times, a bunch of gurus wrote about the 'coming collapse of America,'" says Mike Peng, a professor of organizations, strategy and international management at the University of Texas at Dallas. "My suggestion is not to believe in such end-of-the-world messages. America has been collapsing for several hundred years, [starting with] with the White House being burned down in 1812. And, of course, China has been collapsing for 5,000 years."