Are you prepared if the market tanks in Q4?

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Anyone investing in the market over the last 15 years remembers the larger stock market corrections we lived through from 2000 to 2002—and then again in 2008 to 2009—along with the destruction it wreaked on our portfolios and the sickening anxiety we felt, wondering if the market would ever come back.

We also saw, especially in the early 2000 "Tech Wreck" correction, that having all our eggs in one basket—in that case, technology stocks—added more market risk than we realized at a time when investors were chasing returns in what turned out to be a bubble.

Right now investors are dealing with several issues that seem to be increasing volatility in the market:

- The Ebola scare.
- The Federal Reserve's announcement to end their most recent quantitative easing program.
- The slowdown and possible deflationary pressures in both Europe and Japan.
- The tensions in both the Middle East and in Russia.

These are very complex issues for any investor to digest.

With this in mind, as we work our way through the fourth quarter of 2014, having just experienced a mild market "flash crash" in September—where the S&P 500 gave back 6.7 percent in less than 30 days, only to recover more than 4.3 percent of that loss in just over a week—the question for many of us is: "Was this just a flash crash or is it a warning sign of things to come?"

As a financial planner, I spend my early mornings catching up on my financial, tax and market reading. The morning I was preparing this guest column, I saw both of these posts on the home page of one major financial website:

- "S&P 500 Destined for New Heights—Goldman Sachs"
- "Three Reasons Why You Should Expect a 30 Percent Market Meltdown"

Both can't be right, and perhaps both are wrong. In my experience, many investors make investment decisions based on fear and greed. It is no wonder that investors are confused and nervous at this point, as each day, emotions bounce back and forth as if in a Ping-Pong match.

However, given the facts on the ground, what should an investor do to prepare for a possible market correction other than simply act on fear and sell their portfolio and go all to cash?

About a year ago, I went to a home tactical self-defense course in which the instructor's premise was: "It is 2 a.m. and you hear the noise of an intruder in the house. … What do you do?"

The instructor, who was a former Navy Seal, let us know that it was important to have a plan in place so that at 2 a.m., when you wake up startled, groggy and in the dark, you are not faced with trying to come up with a plan at that time.

Given the fact that none of us has a crystal ball and the market's direction has left many of us "in the dark," I suggest that now—when we are not scared or confused by the conflicting reports of the day—is a great time to plan for that market selloff.

Here are some tips I recommend:

1. Review your portfolio allocation. With the stock market run over the last few years, has your allocation of 60 percent stocks and 40 percent bonds grown to 70 percent stocks and 30 percent bonds? If so, this recent market rebound may be the perfect time to rebalance your portfolio allocation back to target.

2. Review your portfolio holdings. If you have some portfolio "losers," now may be the time to review them to determine if they should continue to be held or replaced with other holdings that may perform better during this market cycle.

3. Consider holding some cash. Although cash at this time is returning very little—earning less than 1 percent in almost all cases—cash delivers in a bear market. During the crash in 2008, where the market lost 37 percent, cash was positive.

In addition, it allowed for some "dry powder" to invest at the bottom. Remember, the basic premise of investing is, "Buy low and sell high." Perhaps now is a time to sell high, so you can buy low if the market corrects.

"Consider your time horizon before reaching the point where you need to begin living off your portfolio."

4. Review your financial plan. If you own stocks, bonds or any investments, you are taking risk. Without knowing your financial plan, it is very difficult to know how much risk you should take to reach your goals.

If you or your financial planner update your financial planning projections to show that you have only a 4 percent rate of return needed to reach your goals, then perhaps if you have a portfolio of 80 percent stocks, you are taking more risk than you need to take. I call this return a client's "hurdle rate."

If the targeted allocation needed to achieve your hurdle rate is more conservative than your current allocation, perhaps that is yet another reason to review your portfolio allocation as mentioned above.

5. Consider your time horizon. This needs to be done before reaching the point where you need to begin living off your portfolio. If you are close to or in retirement, any significant market correction could be devastating to your long-term financial plan. With that in mind, having a more defensive or conservative portfolio allocation and investment strategy may be very wise.

—By Scott Bishop, special to CNBC.com. Bishop is a certified financial planner and director of financial planning at STA Wealth Management.